



IMAX CHINA HOLDING, INC.

Incorporated in the Cayman Islands with limited liability
Stock code : 1970



Annual Report 2017

IMAX[®]

Chairman's Statement



LETTER TO SHAREHOLDERS

Dear Shareholders,

It is my pleasure to present you with IMAX China's 2017 annual results; our third year as a publicly listed company in China.

2017 was noteworthy for IMAX China. Over the course of the year we made efforts to refine our programming strategy, reduce costs and facilitate greater operating leverage throughout our business. The combination of these initiatives, coupled with our strongest installation year ever, resulted in adjusted profit growth of more than 22% to a record \$46 million. Moreover, our adjusted profit margins of 36% expanded 460 basis points compared to 2016.

From a free cash flow standpoint, we generated \$11 million, which resulted in a year-end cash balance of \$117 million. As a result of our continued free cash flow generation, our strong balance sheet and our confidence in the Company's long-term growth prospects, I am pleased to announce that IMAX China's Board of Directors recommended the payment of a final dividend to shareholders of \$0.04, equivalent to approximately HK\$0.31 per share amounting to roughly \$14 million. This announcement underscores our confidence in the business and highlights our goal of creating long-term shareholder value.

Overall, we saw numerous important accomplishments in 2017. To highlight a few of them, we achieved:

- Record revenues of \$126 million, up 7% versus 2016;
- Record adjusted EBITDA of \$67 million, up 23% versus 2016;
- Record adjusted profit of \$46 million, up more than 22% versus 2016;
- 120 new theatre installations, an all time high;
- Operating and free cash flow of \$35 million and \$11 million, respectively;
- 95 new theatre signings, bringing backlog to 309 systems; and
- SG&A reduction, excluding share based compensation, of 19% versus 2016, as a result of the Company's cost-reduction efforts.

Chairman's Statement (Continued)

We believe our record financial results, consistent cash flow generation and continued theatre expansion highlights the value proposition of IMAX and underscores the inherent operating leverage in our business. We also believe last year's results reiterate the value in taking an asset-light approach to the cinema business. While we partner and work closely with exhibitors and studios, it is important to recognize that we have entirely different business models and financial structures, as evidenced by last year's results.

Looking at our results in more detail, while there was a slight decline in box office last year versus 2016, we were encouraged by the 8% box office growth we saw in the second half last year, resulting in total 2017 box office of \$291 million. What made the box office recovery in the second half particularly encouraging were the efforts we made in the early part of the second half of 2017 to refine our programming strategy, which has already provided tangible benefits. For example, the growing prominence of Chinese content has facilitated our interest in programming more into our slate, specifically during big holiday weekends, or weekends without a clear dominant film. For example, we played four Chinese titles during the month of December and, more recently, we played three titles over Chinese New Year. We believe introducing more Chinese content will improve our programming flexibility and enable us to capture more Chinese box office across our growing network.

On the network front, we ended the year with 527 commercial theatres and an additional 309 in backlog. We are currently partnered with virtually all of the top 10 exhibitors in China and, more importantly, the majority of our signings activity reflects repeat customers. It is encouraging when the biggest exhibitors in China continue to come back for additional IMAX systems.

Overall, growing our network of theatres continues to be a foremost priority. We believe a bigger network is essential to generating more box office, and ultimately more earnings in the long-term. While the economics of theatres across different cities with different ticket prices may vary, if we can control our cost growth, additional box office dollars should be largely incremental to our bottom line.

Looking ahead, we believe our growing footprint, refined programming strategy and reduced cost structure strategically positions IMAX China to take advantage of the years ahead. In fact, these efforts have already proven beneficial in the early part of 2018. During the recent Chinese New Year holiday, we grew box office by 74% compared to 2017's seven day holiday. Compared to last year, we generated a total of nearly \$27 million in box office.

All-in-all, we remain encouraged by our continued signings and installation activity. Both exhibitors and studios continue to come back to IMAX due to our value proposition and as a means of differentiating their theatres and films. Moreover, we believe refinements to our programming strategy, coupled with cost-containment efforts, should have a meaningful impact on our ability to generate free-cash-flow and operating leverage in the future.

Finally, I would like to take this opportunity to express my utmost gratitude to our employees, shareholders and business partners for their continue support of IMAX China.

Thank you,

Richard L. Gelfond

Chairman, IMAX China Holding, Inc.



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



Sole commercial platform for the release of IMAX 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



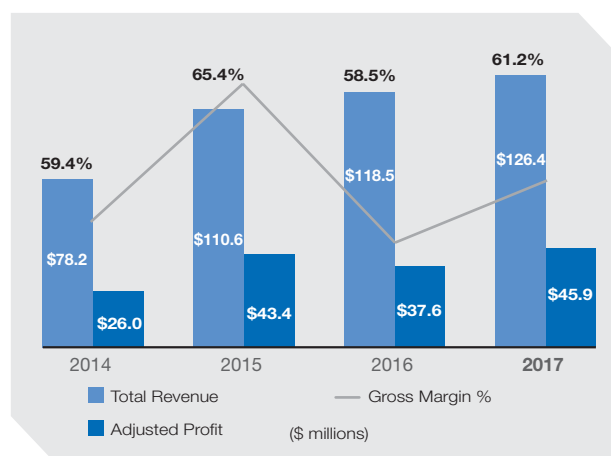
Largest non-conventional theatre network with highest average box office per screen in Greater China and significant ticket price premium

Note

1. According to a survey conducted by Milward Brown Research

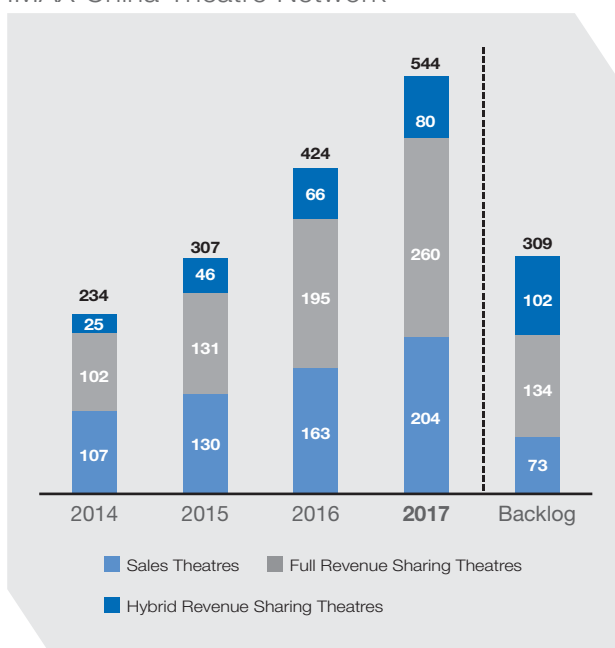
Record Earnings, Capital Return and Robust Theatre Expansion

In 2017 we generated revenue of \$126.4 million and gross profit of \$77.4 million, or 61.2% of revenues. Adjusted profit for the year came in at **record \$45.9 million**, up 22% from the prior year, driven by a 19% reduction in SG&A excluding share based compensation, the installation of eight additional sales-type theatres versus 2016, and stronger second half box office.



Considering our strong profitability and cash position, our Board of Directors' recommended the payment of a final dividend for 2017 of \$0.04 per share, (approximately HK\$0.31 per share), amounting to roughly \$14 million.

IMAX China Theatre Network



In 2017, we achieved an all-time high installation of 120 systems. 65 were Full Revenue Sharing Theatres, 41 were Sales Theatres and 14 were Hybrid Revenue Sharing Theaters.

544 total IMAX Theatres in Greater China with **527** commercial theatres and further **309** theatres in our backlog. Our footprint now covers **179** cities in China. Among our opened network in China, **15%** are in tier 1 cities, while **45%** sit in tier two. Tier 3 and lower account for **40%** of the total network.

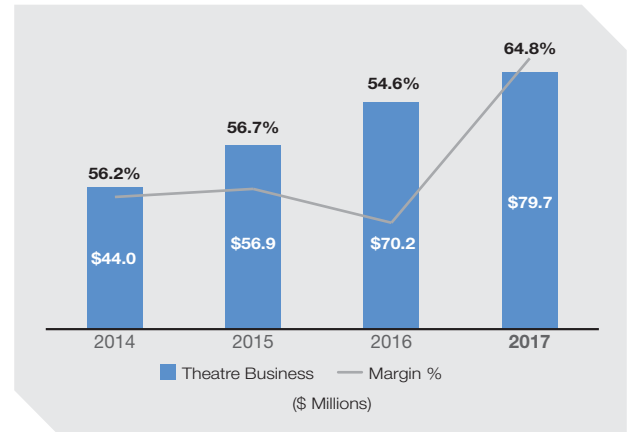
Solid Fundamentals Built on Theatre Business and Network Business

THEATRE BUSINESS

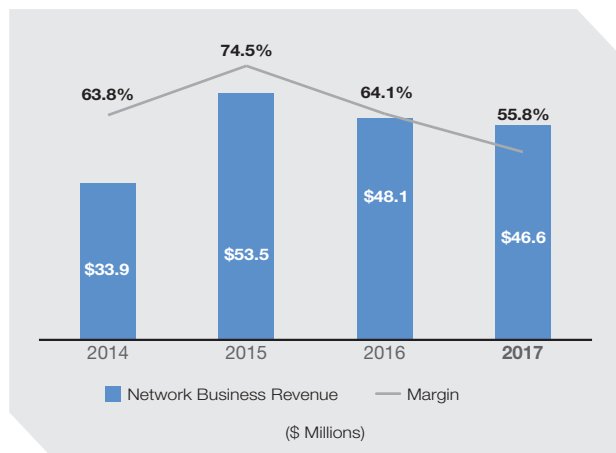
Our Theater Business involves the design, procurement and provision of state of art digital theatre systems at our exhibitor partners' movie theatres, as well as the provision of related project management and ongoing maintenance services and aftermarket sales. Theatre Business revenue is revenue not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

Under sales arrangements, we generate revenue when we typically charge a significant upfront fee as well as an ongoing, unconditional annual minimum payment. 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 over initial contract terms of 10 to 12 years in length. Under other theatre, we generate revenue from the aftermarket sales of 3D glasses, screen sheets, sounds, parts and other items.

Theatre Business Revenue⁽¹⁾



Network Business Revenue⁽¹⁾



NETWORK BUSINESS

Our Network Business revenue consists of all revenue driven from box office, including film revenue and box office revenue from full and hybrid revenue sharing arrangements.

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

(1) In 1H17 we had a reclassification of primary business groups into Theatre Business, Network Business and New Business and Other.

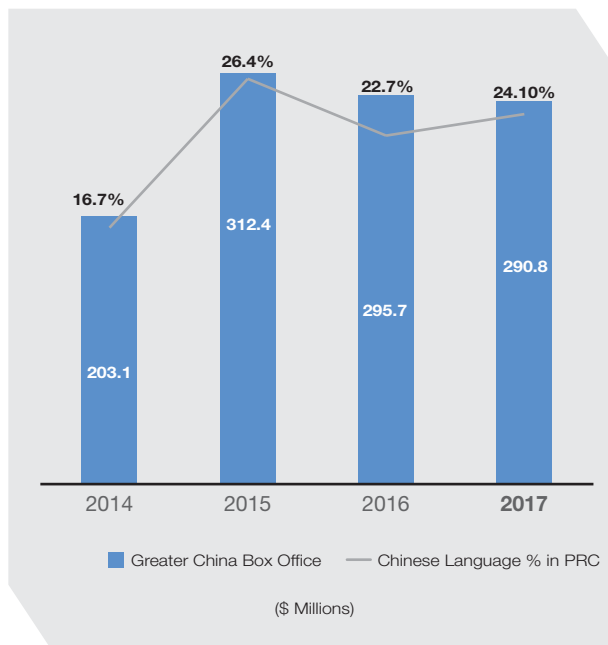
BOX OFFICE AND MOVIES

Our GBO in Greater China decreased slightly in 2017 due to a slow start. However, we were encouraged to see an 8% increase in 2H17 GBO. During the second half, in order to maximize Chinese language box office, we modified our programing strategy to allow for the release of multiple Chinese language films during the same window. During the October holidays, we launched two Chinese titles, *Never Say Die* and *The Foreigner*, and our box office increased by 98% compared yoy.

In 2017, a 24.1% of our PRC box office came from local language films — our highest since 2015. Our goal is to enhance the contribution of Chinese films to our overall box office through our new programing strategy.

We exhibited 51 films across Greater China and the number of Chinese films increased to 14, most of which occurred during H2 of 2017.

IMAX China Box Office

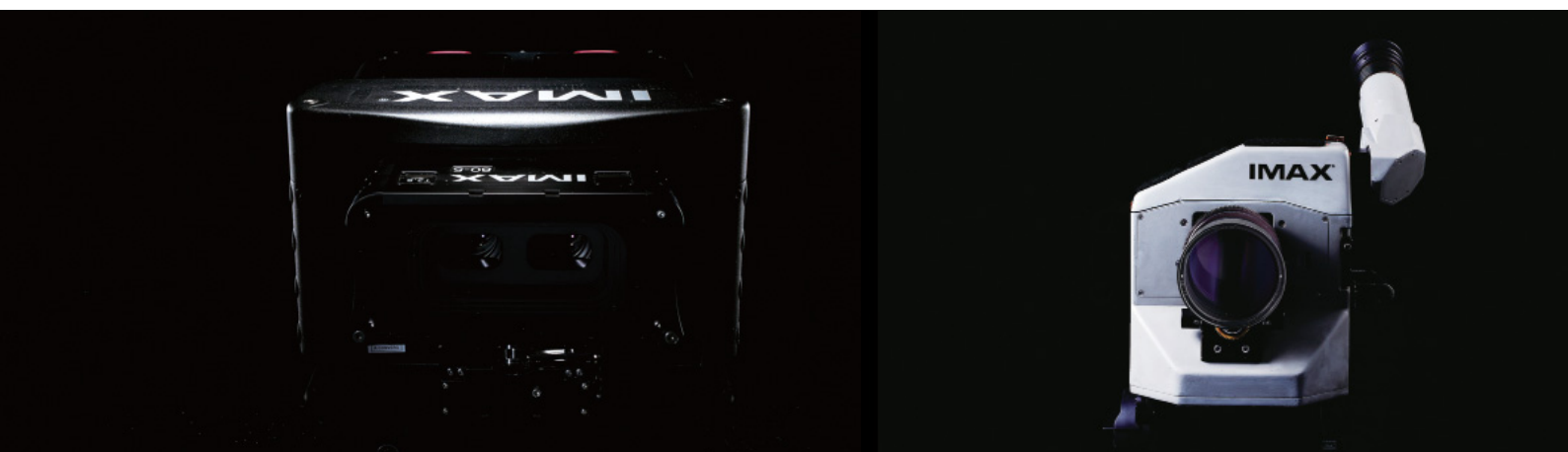


Top Ten IMAX Films in Greater China in 2017



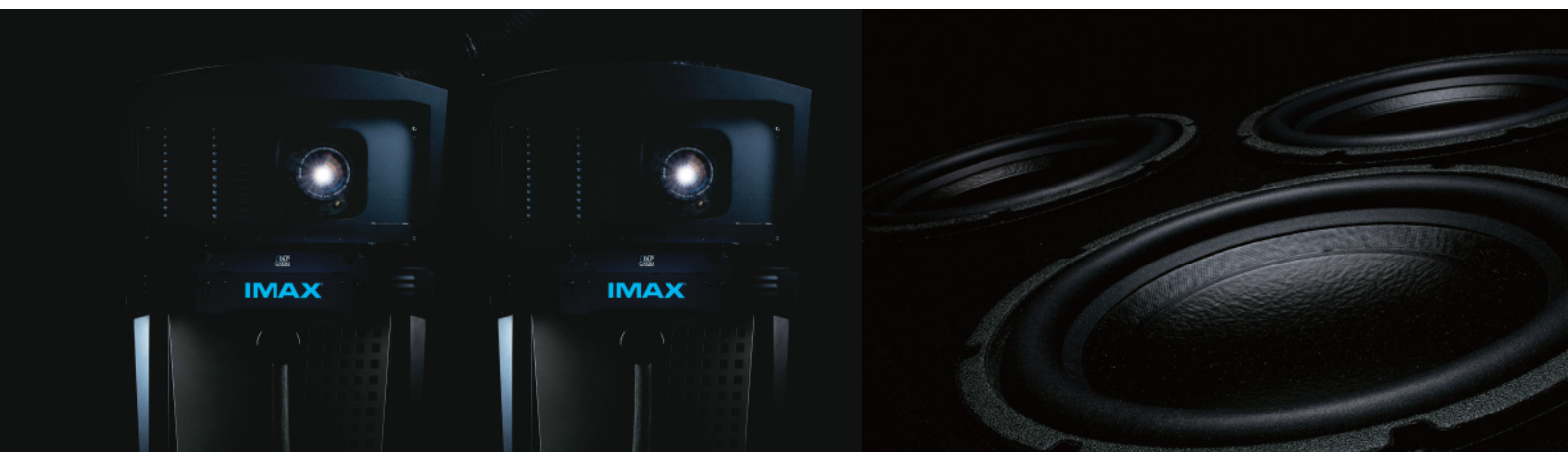
The IMAX Experience

An Integrated, End-To-End Solution



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

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



Board of Directors & Experienced Management Team



Richard Gelfond
*Non-executive Director
and Chairman*

Experience

- 23 years at IMAX and industry experience



John Davison
*Independent
Non-executive Director*

Experience

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



Don Savant
*President, Theatre
Development and
Film Distribution*

Experience

- 17 years at IMAX, 19 years of industry experience in China and 20+ years of industry experience



Greg Foster
Non-executive Director

Experience

- 16 years at IMAX and 24 years of industry experience



Dawn Taubin
*Independent
Non-executive Director*

Experience

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



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

Experience

- 11 years at IMAX and 20 years of industry experience



RuiGang Li
Non-executive Director

Experience

- Founding Chairman of China Media Capital



Jiande Chen
*Chief Executive Officer
Executive Director*

Experience

- 6 years at IMAX and 17 years of industry experience



Honggen Yuan
*Senior Vice President,
Theatre Development*

Experience

- 16 years at IMAX and industry experience



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



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

Experience

- 17 years at IMAX and industry experience, 6 years at IMAX China

Contents

IMAX CHINA HOLDING, INC.

Annual Report 2017

| | |
|--|------------|
| Corporate Information | 12 |
| Highlights | 13 |
| Management Discussion and Analysis | 14 |
| Directors and Senior Management | 47 |
| Report of the Directors | 53 |
| Corporate Governance Report | 93 |
| Environmental, Social and Governance Report | 107 |
| Independent Auditor's Report | 115 |
| Consolidated Statement of Comprehensive Income | 123 |
| Consolidated Statement of Financial Position | 124 |
| Consolidated Statement of Changes in Equity | 125 |
| Consolidated Statement of Cash Flows | 126 |
| Notes to the Consolidated Financial Statements | 127 |
| Financial Summary | 200 |
| Definitions | 201 |
| Glossary | 206 |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Jiande Chen, *Chief Executive Officer*

Jim Athanasopoulos, *Chief Financial Officer and
Chief Operating Officer*

Mei-Hui (Jessie) Chou, *Chief Marketing Officer and
Head of Human Resources*

Non-executive Directors

Richard Gelfond (Chairman)

Greg Foster

RuiGang Li

Independent Non-executive Directors

John Davison

Yue-Sai Kan

Dawn Taubin

AUDIT COMMITTEE

John Davison (Chairman)

Dawn Taubin

Richard Gelfond

REMUNERATION COMMITTEE

Yue-Sai Kan (Chairman)

John Davison

Greg Foster

NOMINATION COMMITTEE

Richard Gelfond (Chairman)

Yue-Sai Kan

Dawn Taubin

JOINT COMPANY SECRETARY

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 1093

Boundary Hall, Cricket Square

Grand Cayman, KY1-1102

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

STOCK CODE

1970

COMPANY WEBSITE

www.imax.cn

Highlights

FINANCIAL HIGHLIGHTS

| | 2017 | 2016 | Change % |
|---|-----------------|----------|----------|
| Total revenue (US\$'000) | 126,474 | 118,532 | 6.7% |
| Gross profit (US\$'000) | 77,358 | 69,297 | 11.6% |
| Gross profit % | 61.2% | 58.5% | 4.6% |
| Profit for the year (US\$'000) | 43,713 | 36,088 | 21.1% |
| Profit for the year % | 34.6% | 30.4% | 13.8% |
| Profit per share (US\$) | 0.12 | 0.10 | 22.5% |
| Adjusted profit (US\$'000) | 45,949 | 37,562 | 22.3% |
| Adjusted profit % | 36.3% | 31.7% | 14.5% |
| Selling, general and administrative expenses (US\$'000) | (14,530) | (17,083) | (14.9)% |
| Adjusted EBITDA (US\$'000) | 67,019 | 54,340 | 23.3% |
| Adjusted EBITDA % | 53.0% | 45.8% | 15.7% |
| Total theater system signings | 95 | 238 | (60.1)% |
| Sales arrangements | 55 | 37 | 48.6% |
| Revenue sharing arrangements | 40 | 201 | (80.1)% |
| Total theater system installations | 120 | 119 | 0.8% |
| Sales arrangements | 41 | 33 | 24.2% |
| Revenue sharing arrangements | 79 | 84 | (6.0)% |
| Upgrades | — | 2 | (100.0)% |
| Gross box office (US\$'000) | 290,819 | 295,671 | (1.6)% |
| Box office per screen (US\$'000) | 666 | 932 | (28.5)% |

2018 OUTLOOK

The Company expects to install approximately 105 new theatres for the year 2018. Of these installations, roughly 37 are expected to be sales arrangements and 68 are expected to be revenue sharing arrangements. We also expect our sales, general and administrative expenses, excluding share-based compensation to grow roughly 9%, primarily as a result of specifically targeted marketing initiatives over 2017.



IMAX[®]





**Management
Discussion
and Analysis**

Management Discussion and Analysis



OVERVIEW

The Company is a leading cinematic technology provider, the exclusive licensee of the IMAX brand in the 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 2017, there were 544 IMAX theatres in Greater China, including 527 in commercial locations, and an additional 309 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 second 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.

Management Discussion and Analysis (Continued)



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 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 small 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 arrangements, we charge smaller ongoing fees which are the greater of an annual minimum payment or small percentage of the theatre's box office. Upfront fees under sales arrangements are recorded in the 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 22.7% to 24.1% and intend to focus our efforts in 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 recently seen significant expansion. We recently incorporated a dual 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 and long term partnerships with local studios and filmmakers have helped to facilitate the change in approach. To further strengthen our ties to local studios and filmmakers, and in furtherance of our commitment to grow our portfolio of Chinese language films, we remain committed to invest in a film fund (the “**China Film Fund**”) together with an entity related to CMC Capital Partners (“**CMC**”). The purpose of the China Film Fund is to invest in tentpole Chinese language films.

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.



Management Discussion and Analysis (Continued)

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

Under sales arrangements, we generate revenue when we typically charge a significant upfront fee as well as an ongoing unconditional annual minimum payment. 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 include pilot VR initiatives, and 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.

Our Partnerships

We have strong and successful partnerships with a number of key players across the Greater China film industry. These include over 60 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., Shanghai Film Co. Ltd., and Guangdong Dadi Theatre Construction Co., Ltd. We have access to IMAX Corporation's exceptional Hollywood relationships that include long term film slate deals with Disney, Warner Brothers and 20th Century Fox. We also work with leading producers, directors and studios in Greater China, such as Huayi Brothers Media Corporation, Bona Film Group Limited, Wanda Media Co. Ltd., Edko (Beijing) Films Limited, and New Classics Media Corporation 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.

Management Discussion and Analysis (Continued)

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 60 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;
- Expanding the IMAX theatre network in the PRC;
- 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 FY2017 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.

Management Discussion and Analysis (Continued)



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 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 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.

Management Discussion and Analysis (Continued)

The number of IMAX theatres in Greater China increased from 424 IMAX theatres as at 31 December 2016 to 544 IMAX theatres as at 31 December 2017. The revenue generated from these incremental theatres helped alleviate the revenue impact resulting from decreased IMAX per screen box office averages in FY2017. The revenue from our Theatre Business increased from US\$70.2 million for FY2016 to US\$79.7 million for FY2017, and the revenue from our Network Business decreased from US\$48.1 million for FY2016 to US\$46.6 million for FY2017. Total revenue increased from US\$118.5 million in FY2016 to US\$126.5 million for FY2017.

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 334 as at 31 December 2016 to 309 as at 31 December 2017, and the carrying value of our backlog increased from US\$114.9 million as at 31 December 2016 to US\$149.3 million as at 31 December 2017 due to a larger proportion of sales and hybrid arrangements. Approximately 24% of our backlog are sales arrangements, 43% are full revenue sharing arrangements and 33% 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 2017, we had identified approximately 1,200 IMAX zones across Greater China.

We had installed IMAX theatres in 179 different cities in the PRC as at 31 December 2017. Historically we focused on Tier 1 and Tier 2 cities and building the IMAX theatre network in more developed cities and regions. We plan to further penetrate major Tier 1 and Tier 2 cities by continuing to work with our exhibitor partners and commercial real estate developers to identify new zones for IMAX theatres. We also plan to continue our expansion of the IMAX theatre network in Tier 3 and Tier 4 Cities, markets that represent approximately US\$3.1 billion in box office in 2017 for the industry, 22% increase over 2016, according to EntGroup Inc, an independent third-party consulting firm. Our network in the PRC currently includes 81 theatres in Tier 1 cities, 235 in Tier 2 cities, 95 in Tier 3 cities and 116 in Tier 4 cities and below.

Management Discussion and Analysis (Continued)

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 Chinese studios and filmmakers and convert those films into the IMAX format using IMAX DMR conversion technology developed by IMAX Corporation. In FY2016 and FY2017, 37 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 FY2018 and FY2019. 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 movie 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\$0.67 million in FY2017 and this compares to average box office per screen of approximately US\$0.16 million for all screens in the PRC for FY2017, according to EntGroup Inc, an independent third-party consulting firm. Higher average box office per screen for IMAX theatres make them more attractive to exhibitors, which enables us to grow the IMAX theatre network and generate revenue from new installations.

In addition, because the number of IMAX theatres under revenue sharing arrangements has grown considerably from 261 as at 31 December 2016 to 340 as at 31 December 2017, and because our backlog as at 31 December 2017 also included an additional 236 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.

Management Discussion and Analysis (Continued)

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. Since a significant portion of our revenue is derived from the box office of Hollywood films released in IMAX format in the PRC, an increase in the number of Hollywood films that can be released in the PRC has had in the past, and is likely to continue to have in the future, an impact on our results of operations. However, the 2012 agreement with the United States 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 will likely have a positive effect on our business. 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 also have proven to be very successful at the box office. According to EntGroup Inc., as at 31 December 2017, 5 of the top 10 box office films in the PRC in calendar 2017 were Chinese language films. In 2017, the Chinese language films *Wolf Warriors 2*, *Journey to the West 2*, *Never Say Die* and *Youth* were a part of the top 10 performing box office films for the Company. 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 54.0% in FY2017 and 58.0% in FY2016, according to EntGroup Inc. IMAX format Chinese language films as a percentage of our PRC box office amounted to 24.1% in FY2017 and 22.7% in FY2016. As part of our commitment to increase the availability of Chinese language films that are suitable for release to our network, we committed to invest in a China Film Fund.

Proportion of Revenue Sharing Arrangements

We generate revenue through charging fees to exhibitors for the IMAX theatre system. Historically, we entered into sales arrangements with exhibitor partners under which most fees were 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. In recent years, we have entered into an increasing number of revenue sharing arrangements, whereby 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.

Management Discussion and Analysis (Continued)

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 of box office revenue earned by these theatres increases with no corresponding cost related to the respective systems.

Revenue sharing arrangements increased from 261 arrangements in FY2016 to 340 arrangements in FY2017. 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.

Management Discussion and Analysis (Continued)

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\$8.2 billion in 2017 at a compound annual growth rate (CAGR) of 27.5% from 2010 to 2017.

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.

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. In addition, some of our employees are paid in U.S. dollars. Any significant increase in the value of the U.S. dollar against the Renminbi will increase our 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.

Management Discussion and Analysis (Continued)

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

In 2017, modifications were made to the chief operating decision maker's reporting packages to reorganize the Company's two primary groups (the Theatre Business and the Film Business) to three primary groups (the Network Business, the Theatre Business and the New Business and Other). These modifications were made to more closely align the Company's disclosures with the way the chief operating decision maker manages the business. The new structure is expected to provide users of the financial statements with an enhanced understanding of how management views the business, and the drivers behind the Company's performance. Certain of the prior year's figures have been represented to conform to the current year's presentation.

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 the sales price, and which is recorded in the Theatre Business. Contingent rent revenue from revenue sharing arrangements is recognized when reported by our exhibitor partners; and
- Sales arrangements, pursuant to which the Company receives contingent rent in excess of the fixed minimum ongoing payments from the exhibitor partners with any fixed upfront or ongoing fees included in the Theatre Business revenue described below. Contingent rent revenue from sales arrangements is recognized when reported by our exhibitor partners.

Theatre Business

The Theatre Business represents all fixed revenues that are primarily derived from exhibitor partners through either sales 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 arrangements, pursuant to which the Company generates revenue from the one-time sale of an IMAX theatre system and related services. The revenue recognized includes the upfront purchase price and fixed, discounted

Management Discussion and Analysis (Continued)

minimum ongoing payments. Sales arrangements revenue is recognized at the time of installation and exhibitor acceptance of the respective IMAX theatre system;

- Revenue sharing arrangements, pursuant to which the Company receives a reduced, fixed upfront fee under its hybrid revenue sharing arrangement. In addition, the Company receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theatre which is recorded in Network Business 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 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.

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

| | FY2017 | | FY2016 | |
|---|----------------|---------------|----------|--------|
| | US\$'000 | % | US\$'000 | % |
| Network Business | | | | |
| Film | 27,436 | 21.7% | 26,650 | 22.5% |
| Revenue sharing arrangements — contingent rent | 18,748 | 14.8% | 21,072 | 17.8% |
| Sales arrangements — contingent rent | 430 | 0.3% | 427 | 0.4% |
| Sub-total | 46,614 | 36.9% | 48,149 | 40.6% |
| Theatre Business | | | | |
| Sales arrangements | 56,220 | 44.5% | 47,442 | 40.0% |
| Revenue sharing arrangements — upfront fees | 6,788 | 5.4% | 9,855 | 8.3% |
| Theatre system maintenance | 15,082 | 11.9% | 11,702 | 9.9% |
| Other theatre | 1,560 | 1.2% | 1,220 | 1.0% |
| Sub-total | 79,650 | 63.0% | 70,219 | 59.2% |
| New Business and Other | 210 | 0.2% | 164 | 0.1% |
| Total | 126,474 | 100.0% | 118,532 | 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, the costs of IMAX theatre systems and related services under sales 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 segments for the years indicated, as well as the percentage of respective revenue they represent:

| | FY2017 | | FY2016 | |
|---|---------------|---------------|----------|-------|
| | US\$'000 | % | US\$'000 | % |
| Network Business | | | | |
| Film | 9,082 | 33.1% | 9,135 | 34.3% |
| Revenue sharing arrangements — contingent rent | 11,500 | 61.3% | 8,159 | 38.7% |
| Sales arrangements — contingent rent | — | — | — | — |
| Sub-total | 20,582 | 44.2% | 17,294 | 35.9% |
| Theatre Business | | | | |
| Sales arrangements | 15,768 | 28.0% | 17,509 | 36.9% |
| Revenue sharing arrangements — upfront fees | 5,511 | 81.2% | 8,345 | 84.7% |
| Theatre system maintenance | 5,652 | 37.5% | 5,199 | 44.4% |
| Other theatre | 1,083 | 69.4% | 796 | 65.2% |
| Sub-total | 28,014 | 35.2% | 31,849 | 45.4% |
| New Business and Other | 520 | 247.6% | 92 | 56.1% |
| Total | 49,116 | 38.8% | 49,235 | 41.5% |

Management Discussion and Analysis (Continued)

Gross Profit and Gross Profit Margin

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

| | FY2017 | | FY2016 | |
|---|---------------|-----------------|---------------|--------------|
| | US\$'000 | % | US\$'000 | % |
| Network Business | | | | |
| Film | 18,354 | 66.9% | 17,515 | 65.7% |
| Revenue sharing arrangements — contingent rent | 7,248 | 38.7% | 12,913 | 61.3% |
| Sales arrangements — contingent rent | 430 | 100.0% | 427 | 100.0% |
| Sub-total | 26,032 | 55.8% | 30,855 | 64.1% |
| Theatre Business | | | | |
| Sales arrangements | 40,452 | 72.0% | 29,933 | 63.1% |
| Revenue sharing arrangements — upfront fees | 1,277 | 18.8% | 1,510 | 15.3% |
| Theatre system maintenance | 9,430 | 62.5% | 6,503 | 55.6% |
| Other theatre | 477 | 30.6% | 424 | 34.8% |
| Sub-total | 51,636 | 64.8% | 38,370 | 54.6% |
| New Business and Other | (310) | (147.6)% | 72 | 43.9% |
| Total | 77,358 | 61.2% | 69,297 | 58.5% |

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:

| | FY2017 | | FY2016 | |
|-----------------------------------|---------------|--------------|---------------|--------------|
| | US\$'000 | % | US\$'000 | % |
| Employee salaries and benefits | 5,468 | 4.3% | 6,137 | 5.2% |
| Share-based compensation expenses | 2,230 | 1.8% | 1,890 | 1.6% |
| Travel and transportation | 916 | 0.7% | 1,244 | 1.0% |
| Advertising and marketing | 1,118 | 0.9% | 1,252 | 1.1% |
| Professional fees | 1,981 | 1.6% | 2,466 | 2.1% |
| Other employee expense | 377 | 0.3% | 480 | 0.4% |
| Facilities | 1,414 | 1.1% | 1,542 | 1.3% |
| Depreciation | 764 | 0.6% | 728 | 0.6% |
| Foreign exchange | (590) | (0.5)% | 500 | 0.4% |
| Other expenses | 852 | 0.7% | 844 | 0.7% |
| Total | 14,530 | 11.5% | 17,083 | 14.4% |

Management Discussion and Analysis (Continued)

Restructuring Expenses

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 are comprised of employee severance costs and contract termination costs. Our restructuring expenses for FY2017 were US\$0.6 million (FY2016: US\$ nil).

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 FY2017 and FY2016 were US\$7.1 million and US\$6.4 million, respectively.

Interest Income

Interest income represents interest earned on various term deposits and a related party short-term loan receivable we hold. None of the term deposits had a term of more than 90 days. Our interest income for FY2017 and FY2016 was US\$0.7 million and US\$0.6 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 FY2017 and FY2016 was US\$12.1 million and US\$10.3 million, respectively. Our effective tax rate was 21.7% and 22.3% during FY2017 and FY2016, respectively.

Management Discussion and Analysis (Continued)

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:

| | FY2017 | | FY2016 | |
|---|---------------|--------------|----------|---------|
| | US\$'000 | % | US\$'000 | % |
| Revenues | 126,474 | 100.0% | 118,532 | 100.0% |
| Cost of sales | (49,116) | (38.8)% | (49,235) | (41.5)% |
| Gross profit | 77,358 | 61.2% | 69,297 | 58.5% |
| Selling, general and administrative expenses | (14,530) | (11.5)% | (17,083) | (14.4)% |
| Restructuring expenses | (636) | (0.5)% | — | — |
| Other operating expenses | (7,087) | (5.6)% | (6,363) | (5.4)% |
| Operating profit | 55,105 | 43.6% | 45,851 | 38.7% |
| Interest income | 725 | 0.6% | 573 | 0.5% |
| Profit before income tax | 55,830 | 44.1% | 46,424 | 39.2% |
| Income tax expense | (12,117) | (9.6)% | (10,336) | (8.8)% |
| Profit for the year, | | | | |
| attributable to owners of the Company | 43,713 | 34.6% | 36,088 | 30.4% |
| Other comprehensive income (loss): | | | | |
| Items that may be subsequently | | | | |
| reclassified to profit or loss: | | | | |
| Change in foreign currency | | | | |
| translation adjustments | 8,333 | 6.6% | (7,392) | (6.2)% |
| Other comprehensive income (loss) | 8,333 | 6.6% | (7,392) | (6.2)% |
| Total comprehensive income for the year, | | | | |
| attributable to owners of the Company | 52,046 | 41.2% | 28,696 | 24.2% |

Adjusted Profit

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

Management Discussion and Analysis (Continued)

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

| | FY2017 US\$'000 | FY2016 US\$'000 |
|-----------------------------------|--------------------|--------------------|
| Profit for the year | 43,713 | 36,088 |
| Adjustments: | | |
| Share-based compensation expenses | 2,230 | 1,890 |
| Restructuring expenses | 636 | — |
| Tax impact on items listed above | (630) | (416) |
| Adjusted profit | 45,949 | 37,562 |

FY2017 COMPARED WITH FY2016

Revenue

Our revenue increased 6.7% from US\$118.5 million in FY2016 to US\$126.5 million in FY2017 driven by an increase of US\$9.4 million in our Theatre Business revenue and a decrease of US\$1.5 million in the Network Business revenue, as explained further below.

Network Business

Revenue from our Network Business decreased 3.2% from US\$48.1 million in FY2016 to US\$46.6 million in FY2017, primarily due to a US\$4.9 million, or 1.6% decrease in box office revenue in FY2017 compared to the prior year and a temporary decrease in Wanda Film's revenue sharing percentage rental rate. The revenue sharing percentage rental rate was automatically reduced under the terms of the Group's written agreement with Wanda Film because of Wanda Film's accelerated rollout, which was approximately 3 years ahead of schedule. Under the terms of the agreement, the reduction will expire on 31 December 2018.

Film

Film revenue increased 2.9% from US\$26.7 million in FY2016 to US\$27.4 million in FY2017 as a result of better performance of Chinese language films in FY2017 despite that a slight decrease in overall box office revenue generated by IMAX films. IMAX formatted Chinese language films, as a percentage of our PRC box office, increased from 22.7% in FY2016 to 24.1% in FY2017, and we shared in a higher percentage of box office for Chinese language films compared to Hollywood films. Despite our network expansion, box office revenue generated by IMAX films slightly decreased 1.6% from US\$295.7 million in FY2016 to US\$290.8 million in FY2017, primarily due to a number of variables, including missing a top performing local language title, competition from overall screen expansion in China, expansion into lower tiered cities subject to lower ticket prices, new developments that take some time to mature and the depreciation of the RMB relative to the USD. The box office revenue generated by IMAX films, on a same currency basis, increased 0.8% from FY2016 to FY2017.

Box office revenue per screen decreased 28.6% from US\$0.93 million in FY2016 to US\$0.67 million in FY2017 as a result of flat box office but larger network due to explanations laid out above. Our network increased 28.3% from 424 IMAX theatres in FY2016 to 544 IMAX theatres in FY2017.

Management Discussion and Analysis (Continued)

The following table sets out the number of films we released in the IMAX format in FY2017 and FY2016 in Greater China:

| | FY2017 | FY2016 |
|---|-----------|-----------|
| Hollywood films | 29 | 27 |
| Hollywood films (Hong Kong and Taiwan only) | 6 | 9 |
| Local language films — Chinese language films | 14 | 10 |
| Local language films — Non-Chinese language films | 1 | — |
| Local language films — Non-Chinese language films (Hong Kong and Taiwan only) | 1 | — |
| Total IMAX films released | 51 | 46 |

Revenue Sharing Arrangements — Contingent Rent

Contingent rent from revenue sharing arrangements decreased 11.0% from US\$21.1 million in FY2016 to US\$18.7 million in FY2017, primarily due to a lower box office revenue per screen, which was partly offset by a greater number of IMAX theatres operating under revenue sharing arrangements in FY2017 compared to FY2016. We had 261 theatres operating under revenue sharing arrangements at the end of FY2016, as compared to 340 at the end of FY2017, which represented an increase of 30.3%.

Contingent rent from full revenue sharing arrangements decreased 13.9% from US\$17.9 million in FY2016 to US\$15.4 million in FY2017 as a result of lower box office revenue per screen and a temporary decrease in Wanda Film's full revenue sharing percentage rental rate. The revenue sharing percentage rental rate was automatically reduced under the terms of the Group's written agreement with Wanda Film because of Wanda Film's accelerated rollout, as discussed previously. These reductions were partly offset by growth in the full revenue sharing network in FY2017, which increased 33.3% year over year, from 195 IMAX theatres in FY2016 to 260 IMAX theatres in FY2017.

Contingent rent from hybrid revenue sharing arrangements increased 5.2% from US\$3.2 million in FY2016 to US\$3.3 million in FY2017, primarily driven by percentage of box office revenue recognised on a larger IMAX theatre network in FY2017, which increased 21.2% from 66 IMAX theatres in FY2016 to 80 IMAX theatres in FY2017 offset by lower average box office per screen.

Sales Arrangements — Contingent Rent

Contingent rent from sales arrangements was flat in FY2017 and FY2016 at US\$0.4 million.

Management Discussion and Analysis (Continued)

Theatre Business

Revenue from our Theatre Business increased 13.4% from US\$70.2 million in FY2016 to US\$79.7 million in FY2017.

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 | | |
|------------------------------------|-------------------|------|------------|
| | 2017 | 2016 | Growth (%) |
| The PRC | 513 | 394 | 30.2% |
| Hong Kong | 5 | 4 | 25.0% |
| Taiwan | 9 | 9 | — |
| | 527 | 407 | 29.5% |
| Institutional⁽¹⁾ | 17 | 17 | — |
| Total | 544 | 424 | 28.3% |

Note:

(1) 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 FY2017 and FY2016:

| | FY2017 | FY2016 |
|--|------------|--------------------|
| Sales arrangements | 41 | 33 |
| Revenue sharing arrangements | 79 | 84 |
| Laser GT upgrades | — | 2 |
| Total theatre systems installed | 120 | 119 ⁽¹⁾ |

Notes:

(1) We installed 117 new IMAX theatre systems plus 2 laser GT upgrades (2 sales arrangements) in FY2016.

Sales Arrangements

Theatre Business revenue from sales arrangements increased 18.5% from US\$47.4 million in FY2016 to US\$56.2 million in FY2017, resulting primarily from the revenue recognition in FY2017 of 8 additional system sales over FY2016. We recognised sales revenue on 33 new theatre systems in FY2016 with a total value of US\$42.0 million, compared to 41 new theatre systems in FY2017 with a total value of US\$53.2 million. In addition, we installed 2 laser GT upgrades at a total value of US\$2.9 million in FY2016. There were no upgrades in FY2017.

Average revenue per new system under sales arrangements was unchanged in FY2017 and FY2016 at US\$1.3 million.

Management Discussion and Analysis (Continued)

Revenue Sharing Arrangements – Upfront Fees

Upfront revenue from hybrid revenue sharing arrangements decreased 31.1% from US\$9.9 million in FY2016 to US\$6.8 million in FY2017, primarily due to 6 fewer hybrid revenue sharing installations in FY2017.

Theatre System Maintenance

Theatre system maintenance revenue increased 28.9% from US\$11.7 million in FY2016 to US\$15.1 million in FY2017. Maintenance revenue increased in FY2017 as a result of a 28.3% increase in the size of the IMAX network and the maintenance revenue driven by each of these incremental theatres.

New Business and Other

Revenue from new business and other was flat in FY2017 and FY2016 at US\$0.2 million.

Cost of Sales

Our cost of sales slightly decreased 0.2% from US\$49.2 million in FY2016 to US\$49.1 million in FY2017. This decrease was primarily due to a decrease of US\$3.8 million in our Theatre Business offset by an increase of US\$3.3 million in our Network Business and an increase of US\$0.4 million in the New Business and Other.

Network Business

The cost of sales for our Network Business increased 19.0% from US\$17.3 million in FY2016 to US\$20.6 million in FY2017 due to additional DMR conversion costs from additional films and increased depreciation costs associated with a larger full revenue sharing network, currently 260 theatres as at FY2017 versus 195 theatres as at FY2016.

Film

The cost of sales for film was flat in FY2017 and FY2016 at US\$9.1 million, primarily due to additional DMR conversion costs resulting from 7 more films exhibited in the PRC during FY2017 as compared to FY2016, while being offset by decreased film marketing spend due to the performance of certain films.

Revenue Sharing Arrangements – Contingent Rent

Cost of sales for contingent rent from revenue sharing arrangements increased 40.9% from US\$8.2 million in FY2016 to US\$11.5 million in FY2017, primarily due to higher depreciation expenses from a greater number of IMAX theatres under full revenue sharing arrangements and the one-time upfront costs related to the installation of 1 incremental full revenue sharing arrangement in FY2017 versus FY2016.

Theatre Business

The cost of sales for our Theatre Business decreased 12.0% from US\$31.8 million in FY2016 to US\$28.0 million in FY2017, primarily due to 6 fewer IMAX theatres systems under hybrid revenue sharing arrangements and lower cost mix of systems under sales arrangements due to GT laser.

Management Discussion and Analysis (Continued)

Sales Arrangements

Cost of sales from our Theatre Business under sales arrangements decreased 9.9% from US\$17.5 million in FY2016 to US\$15.8 million in FY2017, primarily due to the higher cost mix of systems in FY2016. Total 35 IMAX theatre systems installed under sales arrangements in FY2016 which included 1 laser GT installation and 2 laser GT upgrades, as compared to 41 in FY2017 without any laser GT installation/upgrade.

Revenue Sharing Arrangements – Upfront Fees

Cost of sales from installation of hybrid revenue sharing arrangements decreased 34.0% from US\$8.3 million in FY2016 to US\$5.5 million in FY2017, primarily due to the costs recognised on 20 theatre system installations under hybrid revenue sharing arrangements in FY2016 as compared to 14 in FY2017.

Theatre System Maintenance

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 8.7% from US\$5.2 million in FY2016 to US\$5.7 million in FY2017 commensurate with the additional costs associated with servicing a larger IMAX theatre network in FY2017 versus FY2016.

New Business and Other

Cost from new business and other increased from US\$0.1 million in FY2016 to US\$0.5 million in FY2017, primarily due to the cost related to the newly opened pilot IMAX VR centre in Shanghai in FY2017 including an asset impairment of US\$0.3 million.

Gross Profit and Gross Profit Margin

Our gross profit in FY2016 was US\$69.3 million, or 58.5% of total revenue, compared to US\$77.4 million, or 61.2% of total revenue, in FY2017. The increase in gross profit was largely attributable to an increase of US\$13.3 million in our Theatre Business, which was partially offset by a decrease of US\$4.8 million of our Network Business. The increase in gross profit margin was primary due to 2 higher-cost laser GT upgrades in FY2016, while there were no laser installations in FY2017.

Network Business

The gross profit from our Network Business decreased 15.6% from US\$30.9 million in FY2016 to US\$26.0 million in FY2017, and the gross profit margin for our Network Business decreased from 64.1% in FY2016 to 55.8% in FY2017. The decrease was primarily due to a decrease in our overall box office revenue and average per screen box office and the incremental depreciation associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

Film

The gross profit for film increased 4.8% from US\$17.5 million in FY2016 to US\$18.4 million in FY2017, and the gross profit margin for our films business increased from 65.7% in FY2016 to 66.9% in FY2017. The increase was primarily due to an increase in our film revenue as a result of better performance of Chinese language films which we shared a higher percentage of revenue for Chinese language films, lower marketing costs per film and essentially flat cost of sales for film.

Management Discussion and Analysis (Continued)

Revenue Sharing Arrangements – Contingent Rent

The gross profit for contingent rent from revenue sharing arrangements decreased 43.9% from US\$12.9 million in FY2016 to US\$7.2 million in FY2017. The gross profit margin was 61.3% in FY2016 and 38.7% in FY2017.

The gross profit for contingent rent from full revenue sharing arrangements decreased 59.7% from US\$9.7 million in FY2016 to US\$3.9 million in FY2017, and the gross profit margin decreased from 54.5% in FY2016 to 25.5% in FY2017. The decrease was primarily due to increased depreciation costs associated with a larger full revenue sharing network, and lower box office revenue per screen in FY2017 as compared to FY2016, and a temporary decrease in Wanda Film's full revenue sharing percentage rental rate as described previously.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased slightly from US\$3.2 million in FY2016 to US\$3.3 million in FY2017. Lower box office revenue per screen was offset by growth in the hybrid revenue sharing network which increased 21.2% from 66 IMAX theatres in FY2016 to 80 IMAX theatres in FY2017.

Sales Arrangements – Contingent Rent

The gross profit for sales arrangements – contingent rent was flat in FY2017 and FY2016 at US\$0.4 million.

Theatre Business

The gross profit for our theatres business increased 34.6% from US\$38.4 million in FY2016 to US\$51.6 million in FY2017. During the same period, our gross profit margin increased from 54.6% to 64.8%. The increase in gross profit was primarily driven by the installation of 6 additional theatres under sales arrangements and partially setoff by the installation of 6 fewer theatres under hybrid revenue sharing arrangements in FY2017. The increase in gross profit margin was mainly driven by higher cost mix of sales systems in FY2016 due to GT laser.

Sales Arrangements

The gross profit for our Theatre Business from sales of new IMAX theatre systems increased 35.1% from US\$29.9 million in FY2016 to US\$40.5 million in FY2017, primarily due to our installation of 6 additional IMAX theatre systems under sales arrangements in FY2017. Our gross profit margin increased from 63.1% in FY2016 to 72.0% in FY2017 due to higher cost mix of systems in FY2016 including 2 laser GT upgrades and 1 laser GT installation while there was no laser installation/upgrade in FY2017.

Revenue Sharing Arrangements – Upfront Fees

The gross profit from upfront fees derived from hybrid revenue sharing arrangements was US\$1.5 million in FY2016 and US\$1.3 million in FY2017. The decrease was driven by the installation of 6 fewer hybrid revenue sharing arrangements in FY2017. The gross profit margin was 15.3% in FY2016 as compared to 18.8% in FY2017.

Theatre System Maintenance

The gross profit for our theatre system maintenance increased 45.0% from US\$6.5 million in FY2016 to US\$9.4 million in FY2017 as a result of certain operating leverage within the maintenance business generated from a larger network of theatres. Our gross profit margin increased from 55.6% in FY2016 to 62.5% in FY2017.

Management Discussion and Analysis (Continued)

New Business and Other

The gross profit for new business and other was US\$0.1 million in FY2016 and a loss at US\$0.3 million in FY2017. The decrease was driven by the newly opened pilot IMAX VR centre in Shanghai in FY2017.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 14.9% from US\$17.1 million in FY2016 to US\$14.5 million in FY2017, primarily due to: (i) a decrease in foreign exchange of US\$1.1 million resulting from a foreign exchange gain of US\$0.6 million in FY2017 related to the translation of foreign currency denominated monetary assets and liabilities as compared to a foreign exchange loss of US\$0.5 million in FY2016; (ii) a decrease in professional fees of US\$0.5 million due to higher audit, legal costs and other compliance related fees incurred in FY2016 as a result of it being our early years as a public company; and (iii) a decrease of US\$1.0 million related to employee salaries and benefits, travel and transportation, advertising and marketing, and facilities due to the implementation of cost controls and a cost-reduction plan.

Restructuring Expenses

Restructuring expenses of US\$0.6 million were incurred in FY2017 due to the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. Restructuring expenses are mainly comprised of US\$0.3 million for employee severance costs, US\$0.2 million for facilities, and US\$0.1 million for share-based compensation expenses.

Other Operating Expenses

Other operating expenses increased 11.4% from US\$6.4 million in FY2016 to US\$7.1 million in FY2017, primarily due to a custom penalty accrual of US\$0.3 million in FY2017, while there was no such penalty accrual in FY2016, and 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 due to the increase of our revenue.

Income Tax Expense

Our income tax expense increased 17.2% from US\$10.3 million in FY2016 to US\$12.1 million in FY2017. The increase in income tax expense was primarily due to an increase in our operating profit before income tax of US\$9.4 million from US\$46.4 million in FY2016 to US\$55.8 million in FY2017. Our effective tax rate was 22.3% in FY2016 as compared to 21.7% in FY2017.

Profit for the Year

We reported a comprehensive profit for the year of US\$52.0 million in FY2017 as compared to US\$28.7 million in FY2016. The increase was primarily due to an increase in our profit for the year of US\$7.6 million from US\$36.1 million in FY2016 to US\$43.7 million in FY2017 and an increase in other comprehensive income of US\$15.7 million from a loss of US\$7.4 million in FY2016 to an income of US\$8.3 million in FY2017. Comprehensive profit for the year in FY2017 included a US\$2.2 million charge (US\$1.9 million in FY2016) for share-based compensation.

Management Discussion and Analysis (Continued)

Adjusted Profit

Adjusted profit, which consists of profit for the year adjusted for the impact of share-based compensation, restructuring expenses and the related tax impact, was US\$37.6 million in FY2016 as compared to adjusted profit of US\$45.9 million in FY2017, an increase of 22.3%.

LIQUIDITY AND CAPITAL RESOURCES

| | As at 31 December | |
|----------------------------------|-------------------|------------------|
| | 2017 US\$'000 | 2016 US\$'000 |
| Current assets | | |
| Other assets | 2,960 | 1,796 |
| Film assets | — | 10 |
| Inventories | 5,612 | 5,731 |
| Prepayments | 1,971 | 1,093 |
| Financing receivables | 8,450 | 5,831 |
| Trade and other receivables | 53,995 | 37,975 |
| Cash and cash equivalents | 116,678 | 105,903 |
| Total Current assets | 189,666 | 158,339 |
| Current liabilities | | |
| Trade and other payables | 18,522 | 28,459 |
| Accruals and other liabilities | 10,161 | 10,820 |
| Income tax liabilities | 4,458 | 2,446 |
| Deferred revenue | 23,545 | 13,025 |
| Total Current Liabilities | 56,686 | 54,750 |
| Net Current Assets | 132,980 | 103,589 |

As at 31 December 2017, we had net current assets of US\$133.0 million compared to net current assets of US\$103.6 million as at 31 December 2016. The increase in net current assets in FY2017 was mainly attributable to a US\$16.0 million increase in trade and other receivables, a US\$10.8 million increase in cash and cash equivalents, a US\$2.7 million increase in financing receivables, and a US\$10.0 million decrease in trade and other payables and offset by a US\$10.5 million increase in deferred revenue driven by new signings of sales arrangements in FY2017 and funds received on the large number of sales arrangement installations scheduled to install in the next 12 months.

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 | |
|---|-------------------|----------|
| | 2017 | 2016 |
| Cash and cash equivalents denominated in US\$ | \$79,572 | \$70,376 |
| Cash and cash equivalents denominated in RMB (in thousands) | ¥231,085 | ¥218,253 |
| Cash denominated in Hong Kong dollars HK\$ (in thousands) | \$34,657 | \$31,520 |

Management Discussion and Analysis (Continued)

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:

| | FY2017 | FY2016 |
|---|-----------------|----------|
| | US\$'000 | US\$'000 |
| Net cash provided by operating activities | 35,338 | 46,723 |
| Net cash used in investing activities | (27,452) | (28,838) |
| Net cash provided by financing activities | 936 | 837 |
| Effects of exchange rate changes on cash | 1,953 | (3,508) |
| Increase in cash and cash equivalents during year | 10,775 | 15,214 |
| Cash and cash equivalents, beginning of year | 105,903 | 90,689 |
| Cash and cash equivalents, end of year | 116,678 | 105,903 |

Cash From Operating Activities

FY2017

Our net cash provided by operations was approximately US\$35.3 million in FY2017. We had profit before income tax for the year of US\$55.8 million in FY2017 and positive adjustments for amortisation of film assets of US\$7.2 million and depreciation of property, plant and equipment of US\$9.0 million, and settlement of equity and other non-cash compensation of US\$2.3 million, reduced by our taxes paid of US\$12.7 million, our net investment in film assets of US\$7.1 million and changes in working capital of US\$19.9 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$10.1 million; (ii) an increase in financing receivables of US\$10.0 million; (iii) a decrease in trade and other payables of US\$8.9 million; and (iv) a decrease in accruals and other liabilities of US\$1.0 million, partially offset by an increase in deferred revenue of US\$10.8 million.

Management Discussion and Analysis (Continued)

FY2016

Our net cash provided by operations was approximately US\$46.7 million in FY2016. We had profit before income tax for the year of US\$46.4 million in FY2016, and positive adjustment for amortisation of film assets of US\$6.8 million and depreciation of property, plant and equipment of US\$6.6 million, and changes in working capital of US\$3.9 million, reduced by our taxes paid of US\$13.2 million, our net investment in film assets of US\$6.8 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US\$1.3 million; (ii) an increase in financing receivables of US\$8.4 million; (iii) a decrease in deferred revenue of US\$4.7 million; and (iv) a decrease in inventories of US\$0.1 million, partially offset by: (i) an increase in trade and other payables of US\$15.1 million; and (ii) an increase in accruals and other liabilities of US\$3.6 million.

Cash Used in Investing Activities

FY2017

Our net cash used in investing activities was approximately US\$27.5 million for FY2017, primarily related to: (i) investments in IMAX theatre equipment amounting to US\$24.6 million installed in our exhibitor partners' theatres under full revenue sharing arrangements; and (ii) a loan to a joint venture of US\$2.6 million related to the ongoing set up of the China Film Fund.

FY2016

Our net cash used in investing activities was approximately US\$28.8 million for FY2016, primarily related to: (i) investments in IMAX theatre equipment amounting to US\$24.2 million installed in our exhibitor partners' theatres under full revenue sharing arrangements; and (ii) the purchase of property, plant and equipment amounting to US\$4.6 million.

Cash From Financing Activities

FY2017

Our net cash provided by financing activities was approximately US\$0.9 million for FY2017 primarily due to issuance of common shares of US\$ 2.0 million, partially offset by settlement of restricted share units and options of US\$1.1 million.

FY2016

Our net cash provided by financing activities was approximately US\$0.8 million for FY2016 primarily due to issuance of common shares of US\$1.7 million, partially offset by settlement of restricted share units and options of US\$0.8 million.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments in FY2018 and FY2019 amounting to US\$1.6 million and US\$0.4 million respectively related primarily to leased office and warehouse space in Shanghai.

Capital Commitments

As at 31 December 2017, we had capital expenditures contracted but not provided for of US\$30.0 million (2016: US\$26.4 million), and capital expenditures authorised but not contracted for of US\$ nil (2016: US\$5.0 million).

Management Discussion and Analysis (Continued)

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems. During FY2017 and FY2016, our capital expenditures were US\$27.5 million and US\$28.8 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\$29.3 million in FY2018, 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, 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, the Company paid RMB1 million (approximately US\$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment. Given that the amount of the underpayment exceeds RMB200, 000, the Company has been advised that the matter may be treated as a criminal rather than as an administrative matter. During the year ended 31 December 2017, the Company accrued US\$0.3 million in respect of fines that it believes are likely to result from the matter. The Company has been advised that the range of potential penalties is between three and five times the underpayment depending on whether the matter is assessed as criminal or administrative; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that these actual fines or other penalties may be greater or less than the amount accrued or the expected range.

Except as disclosed above or as otherwise disclosed herein, as at 31 December 2017, 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 2017.

Management Discussion and Analysis (Continued)

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US\$35.3 million in FY2017 and US\$46.7 million in FY2016. As the IMAX theatre network continues to grow, we believe our cash flow from operating activities will continue to increase and fund existing business operations and any initial capital expenditures required under revenue sharing arrangements.

STATEMENT OF INDEBTEDNESS

As at 31 December 2017:

- 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 2017, being the latest date of our audited financial statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

No important event affecting the Group has occurred since 31 December 2017.

OFF BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as at 31 December 2017.

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 the related tax impact.

| | 2017 | 2016 |
|---------------------------------------|--------------|-------|
| Gearing ratio ⁽¹⁾ | 32.9% | 40.1% |
| Adjusted profit margin ⁽²⁾ | 36.3% | 31.7% |

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.

Management Discussion and Analysis (Continued)

Gearing Ratio

Our gearing ratio decreased from 40.1% as at 31 December 2016 to 32.9% as at 31 December 2017, primarily due to an increase in profit for the year in FY2017 from FY2016.

Adjusted Profit Margin

Our adjusted profit margin increased from 31.7% as at 31 December 2016 to 36.3% as at 31 December 2017, primarily due to increased gross profit margin from 58.5% in FY2016 to 61.2% in FY2017, driven by 2 higher-cost laser GT upgrades and 1 laser GT installation in FY2016, while there were no higher-cost laser GT installations in FY2017.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Our Board recommended the payment of a final dividend, for the 2017 fiscal year, of US\$0.04 per share (equivalent to approximately HK\$0.31 per share). Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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

As at 31 December 2017, the Company had a total equity of US\$104.1 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

No dividends were declared or paid during the year ended 31 December 2017. During the board meeting held on 27 February 2018, the Board recommended a final dividend of US\$0.04 per share (equivalent to approximately HK\$0.31 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 2017 final dividend is expected to be distributed to shareholders on or around 31 May 2018. There will be no scrip dividend option for the 2017 final dividend.

MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the year ended 31 December 2017.

Management Discussion and Analysis (Continued)

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 2017.

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.

The Company expects to install approximately 105 new theatres for the year 2018. Of these installations, roughly 37 are expected to be sales arrangements and 68 are expected to be revenue sharing arrangements. We also expect our sales, general and administrative expenses, excluding share-based compensation to grow roughly 9%, primarily as a result of specifically targeted marketing initiatives over 2017.

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 ¹ | Position | Date of Appointment |
|-----------------------|------------------|-------------------------------------|---------------------|
| Richard Lewis Gelfond | 62 | Non-executive Director and Chairman | 27 May 2015 |
| Jiande Chen | 62 | Executive Director | 27 May 2015 |
| Jim Athanasopoulos | 47 | Executive Director | 27 May 2015 |
| Mei-Hui (Jessie) Chou | 48 | Executive Director | 27 May 2015 |
| Greg Adam Foster | 55 | Non-executive Director | 27 May 2015 |
| RuiGang Li | 48 | Non-executive Director | 27 May 2015 |
| Yue-Sai Kan | 70 | Independent Non-executive Director | 27 May 2015 |
| John Marshal Davison | 59 | Independent Non-executive Director | 21 September 2015 |
| Dawn Taubin | 59 | Independent Non-executive Director | 21 September 2015 |

The biography of each Director is set out below:

Chairman and Non-executive Director

Mr. Richard Gelfond, aged 62, 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 2010² 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 Ages are provided as of December 31, 2017

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

Directors and Senior Management (Continued)

Executive Directors

Mr. Jiande Chen, aged 62, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Chen has also been the Chief Executive Officer of the Group since 1 August 2011. Mr. Chen 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 47, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Athanasopoulos assumed the role of Chief Financial Officer and Chief Operating Officer of the Company effective May 2015, and served as the Chief Financial Officer and Senior Vice President, Corporate Operations of the Group since 1 August 2011. Mr. Athanasopoulos joined IMAX Corporation in 2000. Prior to his current role, Mr. Athanasopoulos served as the Senior Vice President of Joint Venture Theatre Development of IMAX Corporation from 2010 to 2011, where he helped oversee the execution of IMAX Corporation's joint venture theatre rollout worldwide. He was also the Vice President of Theatre Development of IMAX Corporation from 2008 to 2010. From 2004 to 2008, Mr. Athanasopoulos was an integral part of a worldwide theatre development team that expanded the IMAX Corporation commercial network, signing over 460 new theatres during a time when IMAX Corporation's business model transitioned from institutional clients to multiplexes and from film to digital. Prior to joining IMAX Corporation, Mr. Athanasopoulos worked at KPMG in Toronto for seven years in both their assurance and insolvency practices. Mr. Athanasopoulos graduated from the University of Toronto, Canada, with a bachelor's degree in Commerce in June 1993. He is also a Chartered Accountant, qualified in February 1997, and a member of the Institute of Chartered Accountants of Ontario.

Ms. Mei-Hui (Jessie) Chou, aged 48, has been an Executive Director of the Company since 27 May 2015. She is responsible for the overall marketing direction and business operations of the Group. Ms. Chou assumed the role of Chief Marketing Officer and Head of Human Resources effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations, Human Resources of the Group since 2012. Ms. Chou joined IMAX Corporation in 2006. Prior to her current role, Ms. Chou served as Vice President, Theatre Marketing & Operations. Over the past eleven years, Ms. Chou has planned and implemented more than 500 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 Vishow 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.

Directors and Senior Management (Continued)

Non-executive Directors

Mr. Greg Foster, aged 55, has been a Non-executive Director of the Company since 27 May 2015. He has been a Director of the Company since 8 April 2014. He is responsible for giving strategic advice and guidance on the business and operations of the Group. Mr. Foster joined IMAX Corporation in 2001 as President, Filmed Entertainment, and was appointed Senior Executive Vice President of IMAX Corporation and Chief Executive Officer, IMAX Entertainment, a business division of IMAX Corporation, in 2013. He held the position of Chairman and President, Filmed Entertainment from 2004 to 2013, when he was appointed Chairman and President, IMAX Entertainment. Mr. Foster has also served as an Executive Director of IMAX Corporation since October 2016. Prior to joining IMAX Corporation, Mr. Foster was Executive Vice-President of Production at MGM/UA Pictures, the motion picture division of the larger Metro-Goldwyn-Mayer, Inc from 1996 to 1998. Prior to that, Mr. Foster held other senior positions, including Senior Vice-President of Motion Picture Marketing Research, at MGM/UA from 1993 to 1995. Mr. Foster graduated from Georgetown University with a Bachelor's of Science degree in Business Administration in May 1984. Mr. Foster is a member of the Academy of Motion Picture Arts and Sciences. Mr. Foster also taught as an adjunct professor at the University of Southern California film school. Mr. Foster also serves on the Board of Trustees of the High Mountain Institute, a non-profit educational organisation.

Mr. RuiGang Li, aged 48, has been a Non-executive Director of the Company since 27 May 2015. He was appointed a Director of the Company on 8 April 2014. He is responsible for giving strategic advice and guidance on the business and operations of the Group. Mr. Li is the Founding Chairman of CMC Capital Partners and CMC Holdings, China's leading investment and operation group with a focus on media & entertainment, internet & mobile, and lifestyle sectors. Prior to that, Mr. Li was Chairman and CEO of Shanghai Media Group ("**SMG**"), a Chinese multimedia television, radio broadcasting and publication company. Mr. Li also served as President of The Shanghai Media & Entertainment Group, and the Deputy Director of the Programming Department of Shanghai Radio, Film and Television Bureau. Mr. Li has been a non-executive director of WPP plc (NASDAQ: WPPGY) since October 2010, a non-executive director and the Vice Chairman of Television Broadcasts Limited (Stock Code: 511) and a non-executive director and the Chairman of Shaw Brothers Holdings Limited (Stock Code: 953) since October 2016. Mr. Li graduated from Fudan University, in the PRC, with a bachelor's degree in journalism in July 1991. In July 1994, he was awarded a Master of Arts degree in journalism by Fudan University. He was also a Visiting Scholar at Columbia University, the United States, from August 2001 to April 2002. He was also certified as a Senior Editor by the Qualification Determination Committee of the Senior Professional Technical Qualifications in Journalism of the Shanghai Press Bureau in January 2004.

Directors and Senior Management (Continued)

Independent Non-executive Directors

Ms. Yue-Sai Kan, aged 70, 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 59, has been an Independent Non-executive Director of the Company since 21 September 2015. He is responsible for giving independent strategic advice and guidance to the Group. Mr. Davison is the Chief Financial Officer and Executive Vice President of Four Seasons Holdings Inc., the luxury hotel and resort management company, where he has held that position since 2005, having joined as Senior Vice President, Project Financing, in 2002. In addition to managing the group’s financial activities, which include worldwide financial reporting and management, forward planning, taxation and treasury activities, Mr. Davison also oversees the information systems and technology area of Four Seasons Holdings Inc. Prior to joining Four Seasons Holdings Inc., Mr. Davison spent four years as a member of the Audit and Business Investigations Practice at KPMG in Toronto from 1983 to 1987, followed by 14 years at IMAX Corporation from 1987 to 2001, ultimately holding the position of President, Chief Operating Officer and Chief Financial Officer. Mr. Davison has been a member of the board of directors of Canada Goose Holdings Inc. (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 59, has been an Independent Non-executive Director of the Company since 21 September 2015. She is responsible for giving independent strategic advice and guidance to the Group. Ms. Taubin served as the Chief Marketing Officer of DreamWorks Animation, an animation studio engaging in the development, production and exploitation of animated films and their associated characters, from August 2013 to January 2015, where she managed the global marketing and distribution operations for the studio’s theatrical and television properties. Prior to joining DreamWorks Animation, Ms. Taubin spent 19 years at Warner Bros Pictures, a film production and distribution company, where she was President of Marketing for six years. Prior to joining Warner Bros Pictures, Ms. Taubin was Vice President of Publicity at MGM Studios, an entertainment company providing production and distribution of film and television content. Ms. Taubin graduated from the University of California, Santa Barbara, the United States, with a bachelor’s degree in Communications Studies in June 1980. Ms. Taubin was also a Professor of Public Relations and Advertising at the Dodge College of Film and Media Arts at Chapman University in Orange, California, the United States, from 2011 to 2013.

Directors and Senior Management (Continued)

OUR SENIOR MANAGEMENT

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

| Name | Age | Position |
|-----------------------|-----|--|
| Jiande Chen | 62 | Chief Executive Officer |
| Donald Silvio Savant | 55 | President, Theatre Development and Film Distribution |
| Jim Athanasopoulos | 47 | Chief Financial Officer and Chief Operating Officer |
| Mei-Hui (Jessie) Chou | 48 | Chief Marketing Officer and Head of Human Resources |
| Honggen Yuan (Karl) | 54 | Senior Vice President, Theatre Development |

Senior Management

Mr. Jiande Chen, aged 62, has been the Chief Executive Officer of the Group since 1 August 2011 and is responsible for directing the Company's expansion in the Greater China region and developing and executing strategies that enable the Company to extend its leadership position and involvement in the continuing development of the entertainment industry in Greater China. He was appointed as an Executive Director of the Company on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of his biography.

Mr. Don Savant, aged 55, has represented the Group as President, Theatre Development & Film Distribution since September 2011. Mr. Savant also serves as President, Global Sales, Exhibitor Relations of IMAX Corporation since April 2016. In his dual role, Mr. Savant is responsible for overseeing IMAX Corporation and the Company's sales, marketing and operations worldwide as well as in the Asia Pacific region, including Korea, Hong Kong and China. Mr. Savant is employed by IMAX Corporation and devotes approximately 50% of his time to the Company under a legally binding secondment arrangement. Mr. Savant joined IMAX Corporation in April 2000 as Vice President, Sales, Asia Pacific. He was promoted to Senior Vice President and Managing Director, Asia Pacific, in January 2008 and to Executive Vice President and Managing Director, Asia Pacific in January 2015. Mr. Savant has been involved in securing major multi-theatre deals for IMAX Corporation throughout the Asia Pacific region, including contracts with the largest commercial exhibitors in Korea, Hong Kong and China. Mr. Savant has over 20 years of experience in the entertainment industry and approximately 20 years' experience in China and Asia. In 2011, he led the sales efforts in establishing a partnership with Wanda Cinema Line Co., Ltd, which today is the Company's largest exhibition partner worldwide.

Mr. Jim Athanasopoulos, aged 47, 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 48, assumed the role of Chief Marketing Officer and Head of Human Resources effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations, Human Resources of the Group since 2012. Ms. Chou is responsible for interfacing with theatre operators to ensure successful theatre openings and film launches. She was appointed as an Executive Director on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of her biography.

Directors and Senior Management (Continued)

Mr. Honggen Yuan (Karl), aged 54, 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 15 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 500 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. Chan Wai Ling FCIS, FCS (PE), was appointed as one of the joint company secretaries on 27 May 2015 and has remained in office following the resignation of Ms. Michelle Rosen effective as of 29 December 2017. 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) and SITC International Holdings Company Limited (Stock Code: 1308) as well as the company secretary of China Polymetallic Mining Limited (Stock Code: 2133), China Maple Leaf Educational Systems Limited (Stock Code: 1317) and Sun Art Retail Group Limited (Stock Code: 6808). She was also a former company secretary of TCC International Holdings Limited (Stock Code: 1136, delisted on 20 November 2017).

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 2017.

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 30 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 2017, 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 2018 consistent with the manner described in the Prospectus.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of comprehensive income on page 123 of this Annual Report. The financial summary for the Group for the most recent five years, as set out on page 200 of this Annual Report, are extracted from this Annual Report and the Prospectus.

Report of the Directors (Continued)

RESERVES

Details of the movements in the reserves of the Company and reserves available for distribution to Shareholders as at 31 December 2017 are set out in note 30 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

No dividends were declared or paid during the year ended 31 December 2017. During the board meeting held on 27 February 2018, the Board recommended a final dividend of US\$0.04 per share (equivalent to approximately HK\$0.31 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 2017 final dividend is expected to be distributed to shareholders on or around 31 May 2018. There will be no scrip dividend option for the 2017 final dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property and equipment during the year are set out in note 10 to the Consolidated Financial Statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 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 2017 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 22 to the Consolidated Financial Statements.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2017, the Group made charitable contributions totaling HK\$98,000.

Report of the Directors (Continued)

DIRECTORS

Directors during the year ended 31 December 2017 and up to the date of this report

Executive Directors:

Jiande Chen (Chief Executive Officer)

Jim Athanasopoulos

Mei-Hui (Jessie) Chou

Non-executive Directors:

Richard Gelfond (Chairman)

Greg Foster

RuiGang Li

Independent Non-executive Directors:

Yue-Sai Kan

John Davison

Dawn Taubin

Directors Retiring by Rotation

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

Directors' Service Contracts

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

Directors' Emoluments

Details of the remuneration of the Directors are set out in note 24 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 2017.

Report of the Directors (Continued)

Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2017, 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 83.

Directors' Rights to Acquire Shares or Debentures

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

Permitted Indemnity Provision

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

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2017. 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 directorships and senior management roles in IMAX Corporation held by Mr. Richard Gelfond and Mr. Greg Foster, and the interests of certain of our Directors in IMAX Corporation as set out in "Directors' and Chief Executives' Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation" below, none of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

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

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 2017 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 2017.

Report of the Directors (Continued)

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

Report of the Directors (Continued)

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 2017, 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 2017, 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 2017, IMAX Corporation agreed to make Mr. Don Savant, President, Theatre Development and Film Distribution and Mr. Francisco (Tony) Navarro-Sertich, Senior Vice President, Business Development and Head of M&A available to IMAX Shanghai Multimedia.

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.

Report of the Directors (Continued)

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

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

(iii) Fees

IMAX Shanghai Multimedia shall reimburse IMAX Corporation for the cost of all wages and benefits with respect to the seconded employees in proportion to the time actually spent by such employees on matters related to IMAX Shanghai Multimedia. The proportion of time spent by Mr. Don Savant on matters relating to the Group was approximately 50% for the year ended 31 December 2017. Mr. Tony Navarro-Sertich spent approximately 65% of his time on matters relating to the Group during the year ended 31 December 2017. The fees payable under the Personnel Secondment Agreement also include the share-based compensation awarded to the seconded employees.

(b) Annual Caps and Transaction Amount

In accordance with Rule 14A.53 of the Listing Rules, we have set an annual cap for the maximum aggregate fee payable under the Personnel Secondment Agreement of US\$6,000,000 for FY2017. 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 2014 and the six months ended 30 June 2015; (ii) the estimated number of seconded employees in the coming years; and (iii) the estimated amount of wages and share-based compensation to be given to such seconded employees in the coming years.

Approximately US\$2,916,000 was charged to the Group by IMAX Corporation under the Personnel Secondment Agreement during the year ended 31 December 2017.

(c) Listing Rules Requirements

As the highest relevant percentage ratio in respect of the Personnel Secondment Agreement, as expected for FY 2015, FY2016 and FY 2017, was, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, the Personnel Secondment Agreement, at the time of the Listing, was exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirement. It however remains 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.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under the Personnel Secondment Agreement at 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

Report of the Directors (Continued)

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.

As the highest relevant percentage ratio in respect of the Personnel Secondment Agreement, as expected for FY 2018, FY2019 and FY2020, will be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, the Personnel Secondment Agreement will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and, save for the waiver set out in “— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements” 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.

Report of the Directors (Continued)

(ii) Term

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

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

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

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

- (a) the 25-year term of the Trademark License Agreements is inherently beneficial to the Company as it is only under the trademark licences that we can use the “IMAX” brand to carry on the IMAX theatre business in Greater China;
- (b) the 25-year term of the Trademark License Agreements provides comfort and protection to us, enabling us to plan and invest over the longer term;
- (c) the 25-year term of the Trademark License Agreements also provides comfort and protection to our exhibitor partners as it is sufficiently long to cover existing arrangements with our exhibitor partners that span upwards of 12 years from installation plus a potential renewal; and
- (d) it is in accordance with normal business practice for trademark license agreements to be of such duration.

(iii) Termination

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

In addition, IMAX Corporation shall have the right to terminate a Trademark License Agreement in the event that: (i) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, is in material breach of the relevant Trademark License Agreement or any of the other inter-company agreements entered into between the

Report of the Directors (Continued)

respective parties, or (ii) if IMAX Shanghai Multimedia or IMAX Hong Kong challenges the validity of IMAX Corporation's ownership of any of the licensed trademarks, in either case, after serving a notice of its intention to terminate the relevant Trademark License Agreement and subject to IMAX Shanghai Multimedia or IMAX Hong Kong not having cured such breach within 30 days from the receipt of such notice.

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

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

(iv) Fees

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

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

(b) Annual Caps and Transaction Amount

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

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

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

Report of the Directors (Continued)

Approximately US\$2,614,000 was charged to the Group by IMAX Corporation under the Trademark License Agreements during the year ended 31 December 2017.

(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.

Report of the Directors (Continued)

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

The Technology License Agreements were amended on 21 September 2015.

(ii) Term

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

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

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

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

(iii) Termination

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

IMAX Corporation shall have the right to terminate a Technology License Agreement in the event that (i) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, is in material breach of the relevant Technology License Agreement or any of the other inter-company agreements entered into between the respective parties; or (ii) if IMAX Shanghai Multimedia or IMAX Hong Kong challenges the validity or IMAX Corporation’s ownership of any of the licensed technology, in each case, after serving a notice of its intention to terminate the relevant 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.

Report of the Directors (Continued)

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\$3,921,000 was charged to the Group by IMAX Corporation under the Technology License Agreements during the year ended 31 December 2017.

(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.

Report of the Directors (Continued)

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

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

4. DMR Services Agreements

(a) Description of the DMR Services Agreements

(i) Subject matter

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

- (a) if IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, intends to enter into a DMR production services agreement with a distributor in their respective territories for the conversion of Greater China DMR Films and the release of such films to IMAX theatres in their respective territories, IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, shall seek prior approval from IMAX Corporation to enter into such agreement in order for IMAX Corporation to ensure that the nature and content of such films would not potentially damage the IMAX brand, and IMAX Corporation shall perform the DMR conversion services in consideration for a conversion fee;
- (b) if IMAX Corporation directly enters into an arrangement to distribute the Greater China DMR Film in regions outside of Greater China, IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the portion of box office in respect of the Greater China DMR Films received by IMAX Corporation attributable to the exploitation of such films in regions outside of Greater China; and

Report of the Directors (Continued)

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

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

(ii) *Term and termination*

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

- (a) mutual agreement of the parties;
- (b) bankruptcy or insolvency of IMAX Corporation, or the bankruptcy or insolvency of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or the appropriation of the assets of either party by any government, where termination shall be automatic and immediate;
- (c) at the election of IMAX Hong Kong or IMAX Shanghai Multimedia, as applicable, if there is a material breach of the DMR Services Agreement by IMAX Corporation;
- (d) at the election of IMAX Corporation if there is a material breach of the DMR Services Agreement by IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or any other inter-company agreements entered into between IMAX Corporation and IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable;
- (e) expiration or termination of either Trademark License Agreement (which, for the avoidance of doubt, shall bring about the termination of both DMR Services Agreements); or
- (f) on release of the Escrow Documents.

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

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

Report of the Directors (Continued)

(iii) Fees

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

- (a) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, shall pay to IMAX Corporation a conversion fee in respect of the conversion of the Greater China DMR Films which equals the actual costs of the DMR conversion services plus 10% of all such actual costs;
- (b) IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the portion of box office in respect of the Greater China DMR Films received by IMAX Corporation attributable to the exploitation of such films in regions outside of Greater China; and
- (c) IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the distribution fees attributable to the exploitation of the Greater China Original Films in regions outside of Greater China, if IMAX Corporation elects to obtain the distribution rights to such films in regions outside of Greater China.

The Company and IMAX Corporation have conducted a detailed comparable analysis to ensure that the fees payable under the DMR Services Agreements are on 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.

Report of the Directors (Continued)

For the year ended 31 December 2017, the DMR conversion fees charged to the Group by IMAX Corporation were approximately US\$1,578,000. The number of Greater China DMR films converted was 15.

For the year ended 31 December 2017, no 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\$nil. 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 (a) finance and accounting services, (b) legal services, (c) human resources services, (d) IT services, (e) marketing services, (f) theatre design services, and (g) theatre project management services.

The Services Agreements were subsequently amended on 7 April 2014, 21 September 2015 and 23 February 2017.

Report of the Directors (Continued)

(ii) *Term and Termination*

Each of the Services Agreements has a three year term commencing on 1 January 2017 unless terminated upon any of the following:

- (a) mutual agreement of the parties;
- (b) bankruptcy or insolvency of IMAX Corporation or IMAX Shanghai Multimedia (in the case of the Services Agreement entered into between IMAX Corporation and IMAX Shanghai Multimedia) or IMAX Hong Kong (in the case of the Services Agreement entered into between IMAX Corporation and IMAX Hong Kong) or the appropriation of the assets of either party to the Services Agreement by any government, where termination shall be automatic and immediate;
- (c) at the non-breaching party's election, material breach of the Services Agreement by either party;
- (d) expiration or termination of the Trademark License Agreement entered into between the same persons as are parties to the Services Agreement; or
- (e) on release of the Escrow Documents.

(iii) *Fees*

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

- (a) **Variable service fees:** with respect to the IT services, marketing services, theatre design services, and theatre project management services and theatre support services, IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation on a monthly basis an amount equal to 110% of the actual costs plus general overhead for the provision of such services; and
- (b) **Fixed service fees:** IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation on a monthly basis with respect to the finance and accounting services, legal services and human resources services, a total amount of US\$17,500.

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

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

Report of the Directors (Continued)

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) Transaction Amounts

Approximately US\$661,000 was charged to the Group by IMAX Corporation under the Services Agreements during the year ended 31 December 2017.

(c) Listing Rules Requirements

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under the Services Agreements at HK\$6 million, HK\$7 million and HK\$8 million for 2017, 2018 and 2019, respectively. These annual caps have 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.

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

6. IMAX Shanghai Services Agreement**(a) Description of the IMAX Shanghai Services Agreement****(i) Subject matter**

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

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

Report of the Directors (Continued)

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

Approximately US\$224,000 was charged to IMAX Corporation by the Group under the IMAX Shanghai Services Agreement during the year ended 31 December 2017.

(c) Listing Rules Requirements

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

Report of the Directors (Continued)

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.

Report of the Directors (Continued)

(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.

Report of the Directors (Continued)

The number of IMAX theatre systems installed pursuant to the Equipment Supply Agreements for the year ended 31 December 2017 was 120, and the purchase price paid/payable to IMAX Corporation by the Group was approximately US\$33,305,000.

(c) *Listing Rules Requirements*

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

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

2. *Master Distribution Agreements*

(a) *Description of the Master Distribution Agreements*

(i) *Subject matter*

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

- (a) if IMAX Corporation intends to distribute an IMAX format Hollywood film in the PRC and/or in Hong Kong, Macau and Taiwan, each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall pay to IMAX Corporation certain fees related to the conversion of such IMAX format Hollywood film in consideration for the receipt of the portion of the box office attributable to the release of such IMAX format Hollywood films in their respective territories; and
- (b) if IMAX Corporation intends to distribute an IMAX Original Film in the PRC and/or in Hong Kong, Macau and Taiwan, IMAX Corporation shall grant to each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, the distribution rights of such IMAX Original Films in their respective territories and shall assign to each of IMAX Shanghai Multimedia and IMAX Hong Kong the right to retain any distribution fees attributable to the exploitation of such IMAX Original Films in their respective territories, in consideration for the payment of 50% of such distribution fees by IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable. IMAX Corporation also retains all other revenue attributable to the exploitation of any IMAX Original Film in Greater China.

Report of the Directors (Continued)

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

(ii) *Term and Termination*

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

- (a) mutual agreement of the parties;
- (b) bankruptcy or insolvency of IMAX Corporation, or IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or the appropriation of the assets of either party by any government, where termination shall be automatic and immediate;
- (c) at the election of IMAX Hong Kong or IMAX Shanghai Multimedia, as applicable, in the event of a material breach of the Master Distribution Agreement by IMAX Corporation;
- (d) at IMAX Corporation's election, in the event of a material breach by IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, of the Master Distribution Agreement or any of the other inter-company agreements entered into between IMAX Corporation and either of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable;
- (e) the expiration or termination of either Trademark License Agreement (which, for the avoidance of doubt, shall bring about the termination of both Master Distribution Agreements); or
- (f) upon release of the Escrow Documents.

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

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

Report of the Directors (Continued)

(iii) Fees

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

- (a) for each IMAX format Hollywood film in 2D format and 2.5 hours or less in length, an amount equal to the product of US\$150,000 and the IMAX China Theatre Percentage (in the case of the Master Distribution Agreement entered into between IMAX Corporation and IMAX Shanghai Multimedia) or the IMAX Hong Kong Theatre Percentage (in the case of the Master Distribution Agreement entered into between IMAX Corporation and IMAX Hong Kong) as determined at the time such payment is incurred;
- (b) for each IMAX format Hollywood film in 3D format and 2.5 hours or less in length, an amount equal to the product of US\$200,000 and the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be) as determined at the time such payment is incurred;
- (c) for each IMAX format Hollywood film greater than 2.5 hours in length, whether in 2D or 3D format, a sum to be specified by IMAX Corporation in its sole and reasonable discretion provided that such amount shall not exceed the amounts specified above in paragraphs (a) and (b) calculated on a pro rata basis for the excess of 2.5 hours in length of the film;
- (d) in addition, in connection with any 3D conversions, IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation an additional amount equal to the product of the actual costs plus general overhead for 3D conversions, the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be) and the percentage that all IMAX theatres using IMAX theatre systems in Greater China represents of all IMAX theatres worldwide, both as determined at the time such payment is incurred; and
- (e) notwithstanding (a), (b) and (c) above, if all or substantially all of the IMAX theatres to which the IMAX format Hollywood film is distributed are in the PRC, Hong Kong, Macau and/or Taiwan, then each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall pay IMAX Corporation the product of (A) 110% of the actual costs of the DMR conversion services in respect of such IMAX format film, and (B) the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be).

Report of the Directors (Continued)

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 2015, 2016 and 2017, 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.

Report of the Directors (Continued)

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.

Report of the Directors (Continued)

For the year ended 31 December 2017, 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 29. The conversion fees paid/payable by the Group to IMAX Corporation was approximately US\$5,500,000 and the revenue received/receivable by the Group from IMAX Corporation pursuant to the Master Distribution Agreements amounted to US\$18,496,000.

For the year ended 31 December 2017, 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 2 and the distribution fee paid/payable by the Group to IMAX Corporation was US\$70,000.

(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 2017 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.

Report of the Directors (Continued)

Annual Caps Table paid/payable and Transaction Amounts

The aggregate amount paid by and to the Group during the year ended 31 December 2017, the annual caps for the financial year ended 31 December 2017, and the annual caps for the years ending 31 December 2018 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 2017 (USD) | Annual monetary cap for the year ended 31 December 2017 (USD unless otherwise specified) | Annual monetary cap for the year ending 31 December 2018 (USD unless otherwise specified) |
|--|---|--|---|
| Personnel Secondment Agreement | 2,916,000 | 6,000,000 | 5,800,000 |
| Trademark License Agreements ⁽¹⁾ | 2,614,000 | N/A | N/A |
| Technology License Agreements ⁽¹⁾ | 3,921,000 | N/A | N/A |
| DMR Services Agreements ⁽¹⁾ | 1,578,000 | N/A | N/A |
| Services Agreements | 661,000 | HK\$6 million | HK\$7 million |
| IMAX Shanghai Services Agreement | 224,000 | HK\$6 million | HK\$7 million |
| Equipment Supply Agreements ⁽¹⁾ | 33,305,000 | N/A | N/A |
| Master Distribution Agreements — Revenue ⁽¹⁾ | 18,496,000 | N/A | N/A |
| Master Distribution Agreements ⁽¹⁾ — Conversion and Distribution Fees ⁽¹⁾ | 5,570,000 | 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;

Report of the Directors (Continued)

- 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 28 to the Consolidated Financial Statements. All other related party transactions as described in note 28 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 2017, 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 2017, the Group's five largest suppliers combined and the largest supplier, IMAX Corporation (the Company's controlling Shareholder), accounted for, respectively, approximately 93.8% and approximately 60.5% of Group's total purchases. The five largest suppliers have been suppliers of the Group for an average of 5.77 years.

The Group's customers are primarily exhibitors. For the year ended 31 December 2017, the five largest customers combined and the largest customer accounted for, respectively, approximately 54.9% and approximately 17.8% of Group's total revenue. The five largest customers have been customers of the Group for an average of 4.85 years.

Report of the Directors (Continued)

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 2017, 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 |
|-------------------------------------|------------------|--------------------|------------------------|
| Jiande Chen | 1,531,091(L) | Beneficial Owner | 0.43% |
| Jim Athanasopoulos | 3,141,431(L) | Beneficial Owner | 0.88% |
| Jessie Chou | 1,204,854(L) | Beneficial Owner | 0.34% |
| John Davison | 56,514(L) | Beneficial Owner | 0.02% |
| Yue-Sai Kan | 37,096(L) | Beneficial Owner | 0.01% |
| Dawn Taubin | 56,514(L) | Beneficial Owner | 0.02% |

(L) Long position

(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 | 2,865,080(L) ⁽¹⁾ | Beneficial Owner | 4.41% |
| Greg Foster | IMAX Corporation | 866,576(L) ⁽²⁾ | Beneficial Owner | 1.34% |
| Jim Athanasopoulos | IMAX Corporation | 30,654(L) ⁽³⁾ | Beneficial Owner | 0.05% |
| Jessie Chou | IMAX Corporation | 11,000(L) ⁽⁴⁾ | Beneficial Owner | 0.02% |

(L) Long position

Notes:

- (1) Of which 2,681,277 are options and/or restricted stock units.
- (2) Of which 788,972 are options and/or restricted stock units.
- (3) Of which 27,296 are options and/or restricted stock units.
- (4) Of which all are options and/or restricted stock units.

Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2017, 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 2017, 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 2017, 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) | 68.46 |
| IMAX Barbados | Beneficial interest | 243,262,600(L) | 68.46 |
| JPMorgan Chase & Co. ⁽²⁾ | Beneficial owner/Investment manager/ Custodian corporation/ Approved lending agent | 21,359,397(L) | 5.98 |
| | Beneficial owner | 1,475,042(S) | 0.41 |
| | Custodian corporation/ Approved lending agent | 75,200(LP) | 0.02 |

Notes:

- (1) 243,262,600 Shares are directly held by IMAX Barbados, which is a wholly-owned subsidiary of IMAX Corporation. Under the SFO, IMAX Corporation is deemed to be interested in the Shares held by IMAX Barbados.
- (2) JPMorgan Chase & Co., through various subsidiaries, had an interest in the shares of the Company, of which 4,225,197 Shares (long position) and 1,475,042 Shares (short position) were held in its capacity as beneficial owner, 17,059,000 Shares (long position) were held in its capacity as an investment manager, and 75,200 Shares (long position) were held in its capacity as custodian corporation/approved lending agent.

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 2017.

Report of the Directors (Continued)

REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 80 employees. All of the employees 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 Long Term Incentive Plan, further details of which are set out below. The Company expects to continue to make grants of stock options and/or restricted stock units under its Long Term Incentive Plan in the future to Directors, senior management and other employees.

LONG TERM INCENTIVE PLAN

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

The Board has determined that the total number of Shares that may be issued, or with respect to which awards may be granted under the LTIP is 35,532,500 Shares.

During the year ended 31 December 2017, 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 2017 are set out below:

Report of the Directors (Continued)

| Name of Grantee | Date of Grant | Exercise Price | Option Period | Number of share options | | | | |
|-------------------------------|------------------|----------------|---|--------------------------------|-------------------------|---------------------------|--|----------------------------------|
| | | | | Outstanding at January 1, 2017 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Outstanding at December 31, 2017 |
| Directors | | | | | | | | |
| Jiande Chen | 29 October 2012 | US\$1.8111 | Five years from date of grant ⁽¹⁾ | 1,350,000 | – | – | – | 1,350,000 |
| Jim Athanasopolous | 29 October 2012 | US\$1.3583 | Five years from date of grant ⁽¹⁾ | 1,215,000 | – | – | – | 1,215,000 |
| | 25 October 2014 | US\$1.1852 | Three years from date of grant ⁽¹⁾ | 1,518,800 | – | – | – | 1,518,800 |
| Mei-Hui (Jessie) Chou | 29 October 2012 | US\$1.3583 | Five years from date of grant ⁽¹⁾ | 810,000 | – | – | – | 810,000 |
| | 21 February 2014 | US\$1.8093 | 3.7 years from date of grant ⁽¹⁾ | 270,000 | – | – | – | 270,000 |
| Senior Management | | | | | | | | |
| Don Savant | 29 October 2012 | US\$1.3583 | Five years from date of grant ⁽¹⁾ | 1,485,000 | – | (1,485,000) | – | – |
| Michelle Rosen ⁽³⁾ | 30 March 2015 | US\$1.3333 | Three years from date of grant ⁽²⁾ | 1,088,600 | – | – | – | 1,088,600 |
| Total | | | | 7,737,400 | – | (1,485,000) | – | 6,252,400 |

Notes:

- (1) The vesting schedule is as follows: 25%, 20%, 25% and 30% on 8 October 2015, 29 October 2015, 29 October 2016 and 29 October 2017, respectively.
- (2) The vesting schedule is as follows: 33%, 33% and 34% on each of the first, second and third anniversary of the grant date, respectively.
- (3) Michelle Rosen resigned from her role as the general counsel and joint company secretary with effect from 29 December 2017.

During the year ended 31 December 2017 (the “**Reporting Period**”), 1,485,000 options under the LTIP were exercised and as a result 1,485,000 Shares were issued. No options under LTIP were canceled or lapsed.

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**”).

Report of the Directors (Continued)

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 2017, there were outstanding 139,579 Shares (representing approximately 0.039% of the then issued share capital of the Company) underlying options granted pursuant to the Share Option Scheme. During the year ended 31 December 2017, the Company granted options pursuant to the Share Option Scheme to three directors and certain employees of the Group for an aggregate of 415,094 shares representing approximately 0.116% of the issued share capital of the Company as at the date of this Annual Report. As of 31 December 2017, there were outstanding 554,673 Shares (representing approximately 0.155% 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:

| Name of Grantee | Date of Grant | Exercise Price | Number of Shares under the options granted | Option Period |
|-------------------------------------|---------------|----------------|---|---|
| Directors | | | | |
| Jiande Chen | 7 March 2017 | HK\$36.94 | 100,992 | Four years from date of grant ⁽¹⁾ |
| Jim Athanasopoulos | 7 March 2017 | HK\$36.94 | 84,671 | Three years from date of grant ⁽²⁾ |
| | 1 August 2017 | HK\$21.43 | 136,518 | Three years from date of grant ⁽³⁾ |
| Mei-Hui (Jessie) Chou | 7 March 2017 | HK\$36.94 | 50,496 | Four years from date of grant ⁽¹⁾ |
| | 25 April 2016 | HK\$45.31 | 19,382 | Four years from date of grant ⁽⁴⁾ |
| Senior Management | | | | |
| Francisco (Tony) Navarro-Sertich | 25 April 2016 | HK\$45.31 | 74,973 | Three years from date of grant ⁽⁵⁾ |
| Employees | 25 April 2016 | HK\$45.31 | 45,224 | Four years from date of grant ⁽⁴⁾ |
| Employees | 7 March 2017 | HK\$36.94 | 42,417 | Four years from date of grant ⁽¹⁾ |
| Total | | | 554,673 | |

Notes:

- (1) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of the 7 March 2018, 7 March 2019, 7 March 2020 and 7 March 2021, respectively.
- (2) The vesting schedule is as follows: 25%, 35% and 40% on each of the 7 March 2018, 7 March 2019 and 7 March 2020, respectively.
- (3) The vesting schedule is as follows: 25%, 35% and 40% on each of the 1 August 2018, 1 August 2019 and 1 August 2020, respectively.
- (4) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of the 7 March 2017, 7 March 2018, 7 March 2019 and 7 March 2020, respectively.
- (5) The vesting schedule is as follows: 20%, 30% and 50% on each of the 1 April 2018, 1 April 2019, and 1 April 2020, respectively.

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

As of 31 December 2017, the total number of Shares available for grant under the Share Option Scheme was 25,192,647, representing approximately 7.138% of the issued share capital of the Company as of 31 December 2017 and approximately 7.035% as of the date of this Annual Report.

During the Reporting Period, no options under the Share Option Scheme were exercised, cancelled or lapsed.

Report of the Directors (Continued)

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.

Report of the Directors (Continued)

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 Schemes do not involve the grant of options by the Company to subscribe for new Shares.

As of 1 January 2017, there were outstanding 175,232 Shares (representing approximately 0.049% of the then issued share capital of the Company) underlying options granted pursuant to the RSU Scheme. During the year ended 31 December 2017, the Company had granted RSUs pursuant to the RSU Scheme to directors, senior management and employees of the Group for an aggregate of 567,862 RSUs representing 0.159% of the issued share capital of the Company as at the date of this Annual Report. As of 31 December 2017, there were outstanding 523,829 Shares (representing approximately 0.146% of the then issued share capital of the Company) underlying options granted pursuant to the RSU Scheme. Details of the RSUs granted pursuant to the RSU Scheme to the grantees are set out below:

| Name of Grantee | Date of Grant | Number of RSUs granted | Vesting Period |
|----------------------------------|---------------|---------------------------|---|
| Directors | | | |
| John Davison | 28 July 2017 | 37,096 | Fully vested on grant |
| Yue-Sai Kan | 28 July 2017 | 37,096 | Fully vested on grant |
| Dawn Taubin | 28 July 2017 | 37,096 | Fully vested on grant |
| Jiande Chen | 7 March 2017 | 80,099 | Four years from date of grant ⁽⁴⁾ |
| Jim Athanasopoulos | 7 March 2017 | 64,079 | Three years from date of grant ⁽⁵⁾ |
| Mei-Hui (Jessie) Chou | 1 August 2017 | 122,363 | Three years from date of grant ⁽⁶⁾ |
| | 25 April 2016 | 15,408 | Four years from date of grant ⁽¹⁾ |
| | 7 March 2017 | 40,050 | Four years from date of grant ⁽⁴⁾ |
| Senior Management | | | |
| Francisco (Tony) Navarro-Sertich | 25 April 2016 | 57,782 | Three years from date of grant ⁽³⁾ |
| Karl Yuan | 25 April 2016 | 15,408 | Four years from date of grant ⁽¹⁾ |
| | 7 March 2017 | 20,025 | Four years from date of grant ⁽⁴⁾ |
| Employees | 25 April 2016 | 74,472 | Four years from date of grant ⁽¹⁾ |
| Employees | 25 April 2016 | 18,494 | Two years from date of grant ⁽²⁾ |
| Employees | 7 March 2017 | 100,926 | Four years from date of grant ⁽⁴⁾ |
| Employees | 7 March 2017 | 29,032 | Two years from date of grant ⁽⁷⁾ |
| Total | | 749,426 | |

Report of the Directors (Continued)

Notes:

- (1) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of the 7 March 2017, 7 March 2018, 7 March 2019 and 7 March 2020 respectively.
- (2) The vesting schedule is as follows: 100% on 7 March 2018.
- (3) The vesting schedule is as follows: 20%, 30% and 50% on each of the 1 April 2017, 1 April 2018 and 1 April 2019, respectively.
- (4) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of the March 7, 2018, March 7, 2019, March 7, 2020 and March 7, 2021, respectively.
- (5) The vesting schedule is as follows: 25%, 35% and 40% on each of the 7 March 2018, 7 March 2019 and 7 March 2020, respectively.
- (6) The vesting schedule is as follows: 25%, 35% and 40% on each of the 1 August 2018, 1 August 2019 and 1 August 2020, respectively.
- (7) The vesting schedule is as follows: 100% on 7 March 2019.

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.

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 2017.

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 2017.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

There have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares during the year ended 31 December 2017 other than purchases of 158,269 listed Shares conducted through Computershare Hong Kong Trustees Limited, the trustee engaged by the Company for administering its share option schemes, for satisfying the vesting of the relevant options and/or RSUs.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2017.

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.

Report of the Directors (Continued)

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.

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 2017.

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 2017.

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.

During the Reporting Period, the Company has complied with all the code provisions of the CG Code during the Reporting Period except for the deviation from code provision A.5.2(a) of the CG Code.

Code provision A.5.2(a) states that the nomination committee should review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy. The nomination committee did not hold meetings during the Reporting Period because it was satisfied that the composition of the Board remained sufficiently diverse.

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,

Corporate Governance Report (Continued)

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, three Non-executive Directors and three Independent Non-executive Directors as follows:

- Executive Directors: Mr. Jiande Chen (Chief Executive Officer), Mr. Jim Athanasopoulos, and Ms. Mei-Hui (Jessie) Chou;
- Non-executive Directors: Mr. Richard Gelfond (Chairman), Mr. Greg Foster, and Mr. RuiGang Li; and
- Independent Non-executive Directors: Mr. John Davison, Ms. Yue-Sai Kan, and Ms. Dawn Taubin.

The biographical information of the Directors is set out in the section headed “Directors and Senior Management” on pages 47 to 52 of this Annual Report.

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the Independent Non-executive Directors 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.

Corporate Governance Report (Continued)

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 four board meetings. The attendance record of the Directors is set out below.

| Name of Director | Number of board meeting attended/ held during the Reporting Period | Attendance rate |
|--|--|--------------------|
| EXECUTIVE DIRECTORS | | |
| Mr. Jiande Chen | 4/4 | 100% |
| Mr. Jim Athanasopoulos | 4/4 | 100% |
| Ms. Mei-Hui (Jessie) Chou | 4/4 | 100% |
| NON-EXECUTIVE DIRECTORS | | |
| Mr. Richard Gelfond | 4/4 | 100% |
| Mr. Greg Foster | 4/4 | 100% |
| Mr. RuiGang Li | 3/4 | 75% |
| INDEPENDENT NON-EXECUTIVE DIRECTORS | | |
| Ms. Yue-Sai Kan | 3/4 | 75% |
| Mr. John Davison | 4/4 | 100% |
| Ms. Dawn Taubin | 4/4 | 100% |

All directors attended the annual general meeting held on 19 June 2017.

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

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

Corporate Governance Report (Continued)

Continuous Professional Development of Directors

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

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

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

During the Reporting Period, the Directors attended a training provided by a Hong Kong law firm on the updates on annual report requirements on 23 February 2017. The Directors also attended another training provided by a Hong Kong law firm on directors' duties and the recent reform of the Listing Rules on 27 February 2018. 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 |
| Greg Foster | 1/1 |
| RuiGang Li | 1/1 |
| Independent Non-executive Directors: | |
| John Davison | 1/1 |
| Yue-Sai Kan | 1/1 |
| Dawn Taubin | 1/1 |

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.

Corporate Governance Report (Continued)

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 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 2017
- 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 2017 external audit engagement letters 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 chairman of the audit committee.

Corporate Governance Report (Continued)

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 in 2017 | Attendance rate |
|---------------------------------|--|------------------------|
| John Davison | 2/2 | 100% |
| Dawn Taubin | 2/2 | 100% |
| Richard Gelfond | 2/2 | 100% |

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 Mr. Greg Foster, a Non-executive Director. Ms. Yue-Sai Kan is the chairman of the remuneration committee.

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

| Name of committee member | Number of meetings held/ attended in 2017 | Attendance rate |
|---------------------------------|--|------------------------|
| Yue-Sai Kan | 1/1 | 100% |
| John Davison | 1/1 | 100% |
| Greg Foster | 1/1 | 100% |

During the Reporting Period, the remuneration committee reviewed and recommended grants of options and RSUs to employees and Directors, and reviewed and approved the renewal of the employment contract with a senior manager.

Details of the remuneration of each Director of the Company for the year ended 31 December 2017 are set out in note 24 to the Consolidated Financial Statements contained in this Annual Report.

Corporate Governance Report (Continued)

Details of remuneration of the members of the senior management by band for the year ended 31 December 2017 are set out in note 24 to the Consolidated Financial Statements contained in this Annual Report.

Nomination Committee

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

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

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

The nomination committee did not hold any meetings during the Reporting Period because it was satisfied that the composition of the Board remains sufficiently diverse.

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

FINANCIAL REPORTING

Directors' Responsibility

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

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2017. Accordingly, the Directors have prepared the Financial Statements for the year ended 31 December 2017 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.

Corporate Governance Report (Continued)

Auditor's Responsibility

A statement by the external auditor of the Company, PricewaterhouseCoopers, is included in the Independent Auditor's Report on pages 115 to 122 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 2017 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 2017 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 2017 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 2017 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 2017, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering the reviews performed by the audit committee. The Company complies with the code provisions relating to internal control contained in the CG Code.

JOINT COMPANY SECRETARIES

Ms. Michelle Rosen who used to be our General Counsel, used to, together with Ms. Chan Wai Ling of Tricor Services Limited ("**Tricor**"), our external service provider of company secretarial services, act as joint company secretaries of the Company. With effect from 29 December 2017, Ms. Michelle Rosen resigned as the joint company secretary while Ms. Chan Wai Ling, the other joint company secretary, has remained in office. The Board is in the process of identifying a suitable candidate to fill the vacancy resulting from Ms. Michelle Rosen's resignation and will make further announcement(s) in relation to such appointment as and when appropriate.

During the Reporting Period, Tricor's primary contact person at the Company was Ms. Michelle Rosen until Ms. Michelle Rosen's resignation. Since then, Tricor's primary contact person at the Company was Jim Athanasopoulos, the Chief Financial Officer and Chief Operating Officer of the Company. During the Reporting Period, Ms. Chan Wai Ling took no less than 15 hours of relevant professional training to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting by Shareholders

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

Corporate Governance Report (Continued)

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 requisitioner. The requisitioner 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 requisitioner(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 requisitioner(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

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

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

INVESTOR RELATIONS

Shareholders' Enquiries and Proposals

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

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

Shareholders' Communication Policy

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

Changes in Articles of Association

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

Shareholders' Meetings

An annual general meeting of the shareholders of the Company was held on 19 June 2017. Save as disclosed above, there was no other shareholders' meeting held during the Reporting Period.

Corporate Governance Report (Continued)

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.

Corporate Governance Report (Continued)

- 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.

Corporate Governance Report (Continued)

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

Corporate Governance Report (Continued)

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 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.

2017 Risk Management and Internal Control Process

During 2017, 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.

During 2017, 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 in detail by the Company's Chief Financial Officer as well as by the Chairman 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 in detail by 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 2017 risk management process identified the following as the most significant risks facing the Company:

Political and regulatory risk in the PRC — The vast majority of the Company's business is conducted in the PRC, where laws and regulations are continuously evolving in response to changing economic and other conditions. The cinema industry, in particular, is heavily regulated, with the Chinese government regulating 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, as well as who may operate cinemas in the PRC. To mitigate the risks associated with a highly regulated industry, Senior Management, particularly the Company's CEO and General Counsel, closely monitor changing laws and regulation, including through regular discussion with outside counsel, and researches applicable law to ensure compliance.

Corporate Governance Report (Continued)

Poor Box Office Performance — As previously noted, the Company's revenue is substantially dependent on box office returns. Films that underperform have a negative impact on the Company's financial results. To mitigate this risk, the Company proactively manages the film slate and if a film underperforms, there is flexibility built into the programming schedule to allow for quick alterations. The Company believes that a slate of between 40–50 films is optimal as it helps mitigate the risks associated with the box office performance of a single film, while balancing the DMR costs associated with exhibiting additional films on the Company's network.

Currency Risk — The Company's revenues are mainly generated in Renminbi, with a small portion also generated in Hong Kong dollars. However, the Company's most significant expenses — the equipment the Company purchases 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.

Failure to Satisfy Customers — The Company depends on exhibitors to purchase systems and to enter into revenue sharing arrangements for its business. Failure to meet exhibitors' needs could cause exhibitors not to sign agreements for new systems with the Company and to seek competing products. Notwithstanding this risk, the Company installed a record 120 systems in 2017 and signed agreements for 95 new systems after a record 238 theaters in 2016, which included expansion with many existing partners including our largest deals ever with Wanda Film (formerly known as Wanda Cinema) and Guangzhou Jinyi Media Corporation. To mitigate this risk, exhibitors' needs as well as the competitive landscape are closely monitored and evaluated by employees across various departments of the Company. In addition, the Company provides ongoing brand, film and theatre marketing support, in addition to ongoing maintenance services and support to ensure customers' satisfaction.

Concentration of Customers — The Company's customers are primarily exhibitors. As at 31 December 2017, our three largest exhibitor customers (based on the revenues attributable to them for the year ended 31 December 2017) entered into agreements with us for in total 413 IMAX theatre systems, representing approximately 48.4% of the total number of theatres in the IMAX theatre network (including in our backlog). The aggregate percentage of our total revenue attributable to such three largest exhibitors for FY2017 was approximately 33.4%. Our largest exhibitors have therefore constituted a material portion of the Company's network and revenue. While these exhibitors have long term agreements with the Company, if any of them fails to perform its agreement or suffers an adverse economic impact, the Company's business, financial condition or results of operations may be adversely affected. To mitigate this risk, the Company closely monitors and evaluates needs of its largest exhibitors and the competitive landscape and provides support in various areas. The Company also actively explores business opportunities with other exhibitors and opportunities relating to its other primary groups.

ESG Policies and Performance

Throughout 2017, 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 2017 is set out in the Environmental, Social and Governance Report on Page 107.

Environmental, Social and Governance Report

ABOUT THE REPORT

We are pleased to present the Company's 2017 Environmental, Social and Governance (“ESG”) Report for the purposes of assisting all its stakeholders in understanding its concept and practices of sustainable development. The report describes the Group's policies and activities in 2017 that were designed to fulfill 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 Report includes IMAX China and all of its subsidiaries covering the period from January 1 to December 31, 2017. Moreover, the Company has prepared a full ESG report to disclose detailed information about the Group's ESG related activities in 2017, which is available at <http://www.imax.cn/responsibility>. There are no significant changes in the scope of this report from that of the 2016 ESG report in the annual report of the Company published on 24 February 2016. The Company has conducted an assessment on the applicability and materiality of the relevant KPIs under the ESG Guide. This Report has complied with all the “comply or explain” provisions and has included explanations for provisions which are not applicable to the Group.

ESG GOVERNANCE

The Board supports the Group's commitment to fulfilling corporate social responsibility and takes full responsibility for the Group's ESG strategies and reporting. The Board is responsible for the evaluation and identification of ESG risks of the Group, and ensuring that the Group sets up an appropriate and effective ESG risk management and internal control system. The management of the Group provides the Board with the confirmation of the effectiveness of the ESG system.

A. ENVIRONMENTAL PROTECTION

To demonstrate the Group's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavors to minimize the environmental impact of the Group's business activities and maintain green operations and green office practices. In furtherance of these efforts, the Group adopted the “IMAX China Environmental Protection Management Policy”. In 2017, there were no confirmed non-compliance incidents in relation to environmental protection that would have a significant impact on the Group's operations.

A.1 Emissions

In accordance with relevant law and as mandated by the “IMAX China Environmental Protection Management Policy”, the Group must ensure that emissions standards are met in respect of its operations. Annual assessments are conducted on the Group's air and greenhouse gas emissions as well as the generation and disposal of hazardous and non-hazardous waste. Relevant departments are required to collect and analyze relevant data and summarize their respective findings on an annual basis, as well as to take specific measures to reduce or avoid emissions. The Group will monitor the results of the measures put in place to mitigate emissions.

Environmental, Social and Governance Report (Continued)

The Group is governed by, and has complied with, the Law of Environmental Protection of the People's Republic of China. Based on the Company'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 discharged into the municipal sewer systems for collective treatment in accordance with the "Effluent Water Quality Standards for the Urban Sewage System" and workplace wastes are treated by the property management companies maintaining the IMAX China offices. There is no material impact on the environment and natural resources.

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 report. Further, 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 report.

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 practices 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. Greenhouse gas emissions data is presented in carbon dioxide equivalent (in tons). In 2017, the Group's energy indirect emissions (Scope 2) resulting from electricity consumption were 119.28 tCO₂e, and other indirect emissions (Scope 3) resulting from air travel were 367.01 tCO₂e. The greenhouse gas emissions were 486.29 tCO₂e in total and 6.08 tCO₂e per employee.

A.2 Use of Resources

The resources used by IMAX China are principally attributed to electricity and water consumed at its offices. With the aim to better manage its use of resources, annual assessments of use of resources are performed. As regulated by the "IMAX China Environmental Protection Management Policy", relevant departments collect and analyze data and summarize their respective findings on an annual basis. Initiatives, such as energy and water saving practices, are developed to address departments' findings. The Group will monitor the results achieved by the energy use efficiency initiatives.

The Group has adopted green office practices to reduce natural resource and energy consumption, e.g., offices are equipped with sterilizing dishwashers to encourage the use of non-disposable tableware and installed with LED lamp to save energy, and employees are encouraged to develop the habit of energy conservation, e.g., timely turn off lights, computers and printers.

Environmental, Social and Governance Report (Continued)

In 2017, the Group's energy consumption was 166.51 MWh of electricity in total and 2.08MWh of electricity per employee. 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 report. Further, 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 report.

A.3 Environment and natural resources

This aspect is not applicable to the Group's operations, as the Group's environmental impact and use of natural resources is minimal.

B. SOCIAL COMMITMENT

IMAX China believes that one of the key aspects of its success is the good relationship it maintains with employees. IMAX China provides competitive employee benefits and comprehensive training programs to encourage employees to achieve their potential and put their abilities to good use. Furthermore, IMAX China provides employee programs to encourage employee well-being and health. Moreover, in a typical year, IMAX China provides for a number of staff activities to enhance employees' sense of belonging and to help create a friendly and harmonious working environment. In 2017, there were no confirmed non-compliance incidents or grievances in relation to employment and labor practices, human rights, supply chain management, product liability, anti-corruption and bribery standards and regulations that would have a significant impact on the Group's operations.

B.1 Employment

In accordance with the Labor Law of the People's Republic of China, Labor 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 employment management, rights on termination, business conduct, social security funds, compensation, employee benefits, leave benefits, working hours/overtime and performance management, a Long-Term Incentive Plan, an Employee Referral Program and other policies for the benefit of its employees.

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. The Group's resignation and dismissal policies adhere to the requirements of the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and IMAX China Employee Handbook.

Environmental, Social and Governance Report (Continued)

Wages and salaries 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. In accordance with applicable Chinese labor rules and regulations, IMAX China contributes to various public funds for each employee.

IMAX China also maintains a "Holiday Policy" and "Travel Policy", which entitle employees 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. The Group's employees work under a standard 40 hours per week.

IMAX China works to ensure an equal and fair working environment. IMAX China does not tolerate sexual harassment, attack or abuse in the workplace in any form, which is a violation of PRC law.

B.2 Health and Safety

IMAX China works hard to provide a safe, healthy and comfortable working environment in accordance with the Labor Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Labor Rights and Interests and other applicable regulations. 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 provides firefighting equipment and first aid kits and over-the-counter medicine in the offices. The Group also facilitates Red Cross First Aid & CPR courses, performs annual fire drills and has in-house fire wardens.

IMAX China has formulated the Guide to Installing an IMAX Digital System to ensure safe installation of its theater 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 theater systems and provides safety training to the technicians.

The Group offers its employees comprehensive health care coverage and also provides non-medical insurance coverage and child benefits. The Group has launched a Wellness Allowance Program to encourage more involvement in workout programs to improve physical fitness.

Environmental, Social and Governance Report (Continued)

B.3 Development and Trainings

To encourage employee development, IMAX China provides human resource trainings, including customized training courses, to help equip employees with the knowledge and relevant skills to help them develop managerial knowledge and other professional skills that help advance their careers. 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 offered training programs. 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”.

New employees are provided with on-board trainings to help them familiarize themselves with the culture, business and operations of the Group. In addition, for technical posts such as technical support and theater installation, every newly-hired employee will be provided with pre-job technical training to enhance the professional skills necessary for the job.

In 2017, the Group established the IMAX training center and nominated an experienced internal trainer to be responsible for orientations for the technicians. The Group provided the online training platform, the IMAX Learning Series, to make available to employees training materials covering topics focused on developing key competencies and skills that can contribute to employees’ performance and ongoing success.

B.4 Labor Standards

In accordance with the Labor Contract Law of the People’s Republic of China and IMAX China Employee Handbook, IMAX China tolerates neither recruitment of minors nor forced labor. 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 also strictly follows relevant PRC labor regulations relating to working hours, rest and holidays to ensure the physical and mental health of all employees. Employees are not forced to work overtime. Employees are entitled to overtime pay if they obtain prior approval from their manager.

B.5 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 theater exhibitor clients.

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

Environmental, Social and Governance Report (Continued)

IMAX Corporation, the Company'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.

The Group performs annual assessment on environmental and social risks of the supply chain. It grades suppliers' environment and labor risks using the Supplier Environmental and Social Risk Assessment Form as the basis for selecting and evaluating suppliers. The Group encourages suppliers to take measures to reduce environmental and social risks thus moving towards sustainable development.

B.6 Product Responsibility

IMAX China complies with various PRC regulations relevant to the operation of its business, such as health and safety, advertising, labelling and privacy matters relating to products and services, including the Trademark Law of the People's Republic of China and the Advertising Law of the People's Republic of China. In addition to following relevant laws, IMAX China follows its own operating policies and rules including the IMAX Pre-installation Checking List, Guide to Installing an IMAX Digital System and IMAX Theater Technical Helpline Guide that govern IMAX theater installation and maintenance.

- **Customer Service**

The Group maintains the various internal policies including the IMAX Pre-installation Checking List and Guide to Installing an IMAX Digital System to ensure the efficiency of installation of the IMAX theater systems as well as to improve customer service. After installing, regular maintenance is conducted twice a year.

IMAX China provides theaters with trainings to train managers and directors of IMAX theaters in the PRC on IMAX brand and history, theater operation, movie marketing and other topics. Moreover, theater equipment is regularly calibrated, tested and maintained to ensure best viewing experience. In 2017, IMAX China introduced an online video training platform for theaters complementary to classroom training so as to better serve all theater customers.

In terms of equipment maintenance, IMAX China offers its exhibitor clients maintenance services via a 24-hour phone service center as well as remote network guided by the IMAX Technical Service Phone Support Manual. These services offer continuous technical support and solutions to customers and theaters nationwide. IMAX China maintenance technicians are located throughout the PRC so that for the equipment requiring on-site repair, IMAX China is able to send a technician located in close geographical proximity to the theater. Customers' calls for emergency services are answered within three hours by phone. If required, emergency personnel will arrive at the theater within 48 hours. 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.

Environmental, Social and Governance Report (Continued)

IMAX China puts premium on communications with customers. IMAX China has established an email address cgo@IMAX.com which appears on the screen when a movie ends. Audience can email IMAX China their feedback or opinions about viewing experience. Besides, IMAX China offers trainings for customer service representatives and technical personnel to enhance customer experience.

- **Safety Responsibility**

To ensure the health and safety of patrons and employees of IMAX theaters during theater construction and operation, IMAX China follows strict supplier selection procedures and technical requirements when purchasing equipment such as screens, screen frames, audio equipment and projection equipment.

- **Advertising**

IMAX China strictly complies with the Advertising Law of the People's Republic of China and requires suppliers to do likewise in the Group's advertising contracts.

- **Intellectual Property Right Protection**

IMAX China encourages all employees and exhibitor partners to engage in the protection of the IMAX brand. Employees and exhibitor partners are encouraged to report any suspected infringement. The Group will take corresponding anti-infringement actions.

- **Privacy**

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.

B.7 Anti-Corruption, Bribery, Extortion, Fraud and Money–Laundering

IMAX China maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery in any form in compliance with the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and other relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behaviour 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**").

The Group adheres to the high standard of integrity management in operation, and eliminates any form of corruption and bribery. 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".

Environmental, Social and Governance Report (Continued)

B.8 Community Investment

With social responsibility in mind, IMAX China is expanding its efforts in the area of charity work. The Group has formulated the “IMAX China Community Investment Management Policy”. Annual assessment is conducted on how its business activities relate to the interests of the communities where it operates and how effective measures are taken to accelerate social progress by pushing forward education, sports, charity and other undertakings. IMAX China will continue to fulfill its promise of corporate social responsibility in the future, to keep in mind its corporate social responsibilities and mission, to benefit the neighborhood, and to contribute to society.

In 2017, IMAX China has taken an active role in a variety of charitable activities including the arrangement of children of migrant workers to visit the Shanghai Science Museum, the arrangement of children with hearing difficulty to see IMAX movies and the sponsorship of the Ronald McDonald House Charities 2017 Gala Dinner. The Group promotes positive, optimistic and healthy lifestyle through a series of marketing activities.

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 123 to 199, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of changes in equity for the year ended 31 December 2017;
- the consolidated statement of cash flows for the year ended 31 December 2017; 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 2017, 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 summarised as follows:

- Revenue recognition of theatre systems and associated services
- Disclosure of possible impacts of IFRS 15 adoption

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|--|
| <p>Revenue recognition of theatre systems and associated services</p> <p><i>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.</i></p> <p>For the year ended 31 December 2017, the Group recognised revenue of US\$126,474 thousand, the majority of which, amounting to US\$97,268 thousand, is related to the Group's revenue arrangements with customers of theatre systems and services associated with theatre systems.</p> <p>The accounting of such arrangements is complex and involves management's judgements and estimates in consideration of the following:</p> <ul style="list-style-type: none"> • Consideration of whether theatre system arrangement involves either a lease (finance lease or operating lease) or a sale of theatre systems; • Determination of multiple elements which comprise of separately identifiable components consisting of theatre system (projector, sound system, screen system and glasses cleaning machine); services associated with the theatre system (including theatre design support, supervision of installation, and projectionist training); trademark licensing of IMAX; 3D glasses; equipment maintenance and licensing of films; • Revenue in respect of each separable component is measured at fair value and the consideration is allocated based on the relative fair value of each component; | <p>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.</p> <p>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.</p> <p>For theatre systems arrangements entered into with customers during the year, we obtained and read all the revenue accounting memorandum prepared by management to evaluate whether the application of the Group's revenue recognition policies were appropriately applied with respect to:</p> <ul style="list-style-type: none"> — Consideration of theatre system arrangement as sale, finance lease or operating lease; — Determination of separately identifiable deliverables, which generally include the systems deliverable and maintenance service; — Determination and allocation of fair value among separately identifiable deliverables. |

Independent Auditor's Report (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| <ul style="list-style-type: none"> Determination of the timing of the revenue recognition of each separable component; Consideration consists of initial payment and ongoing 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 contingent payments in excess of fixed minimum ongoing payments or based on revenue sharing arrangements. | <p>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 deliverables, amounts of initial and ongoing payments, and other relevant terms in connection with the arrangement, as described in the revenue accounting memorandum prepared by management, to the signed revenue arrangements.</p> <p>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 checked the accuracy of the 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. 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 fair value of system deliverables and maintenance services by referencing the average prices of contracts signed in the prior year. We recalculated the allocation of total revenue among separate components (systems deliverable and maintenance services) and checked the proper recognition or deferral of revenue in connection with the respective component accordingly.</p> <p>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 deliverable have been fulfilled and revenue was recognised in the proper period.</p> |

Independent Auditor's Report (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|--|--|
| <p>Disclosures of possible impacts of IFRS 15 adoption</p> <p><i>Refer to note 3 of the consolidated financial statements for the Directors' disclosures of the possible impact on the Group's consolidated financial statements with respect to the initial application of IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2018 utilising the modified retrospective approach.</i></p> <p>The Group's revenues from the sales of theatre systems, provision of maintenance and extended warranty services, sale of aftermarket 3D glasses and parts, conversion of Chinese language film content into the IMAX digital re-mastering ("DMR") format and DMR revenue from Hollywood films are within the scope of the standard. Such revenues recognised by the Group for the year ended 31 December 2017 amounted to US\$100,938 thousand, which represented 80% of the Group's total revenues for the year.</p> | <p>For joint revenue sharing arrangements which were accounted for as operating leases with rental payments contingent on box-office revenues reported by the theatre operators, we examined selected box-office revenues reported by the theatre operators and recalculated the revenue recognised based on the box-office revenues and the sharing percentage as set out in the respective revenue arrangements.</p> <p>In addition, we tested the posting of revenue recognition journal entries related to system deliverables on a sample basis for consistency with the results of our above work performed.</p> <p>We found no material exceptions in the procedures performed above.</p> |
| <p>We obtained and evaluated the Group's assessments on the application of IFRS 15 for the Group's revenue streams under different arrangements entered into with the customers and the Group's conclusions on the potential impacts on the Group's consolidated financial statements.</p> <p>Based on our understanding of the Group's business model, revenue streams and normal contract terms, we evaluated the appropriateness of the Group's assessment of revenues within the scope of IFRS 15. We also evaluated the appropriateness and completeness of the performance obligations identified by the Group for the different categories of sales arrangements.</p> <p>We evaluated the Group's assessment on the application of IFRS 15 to the revenue recognition for the identified performance obligations within the different categories of sales arrangements.</p> | |

Independent Auditor's Report (Continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| <p>The assessment for the adoption of IFRS 15 is complex and involves management's judgements and estimates in consideration of the following:</p> <ul style="list-style-type: none"> • Determination of the revenue arrangements which shall be within the scope of IFRS 15; • Identification of performance obligations in: 1) the theatre system sales arrangements; 2) digital re-mastering ("DMR") arrangements for Chinese language films; 3) Master Distribution and DMR Services Agreement with IMAX Corporation for the DMR revenue for Hollywood films; • Determination of the proper recognition of the revenue for each performance obligation identified, i.e. over time or point in time; • Certain of the Group's revenue streams will be impacted by the variable consideration provisions of the standard. The arrangements for the sale of theatre systems include indexed minimum payment increases over the term of the arrangement and additional payments in excess of the minimum agreed payments where the theatre exceeds certain box office thresholds; • Application of variable consideration exemption for sales- or usage-based royalties in DMR revenue streams from Chinese language films; • Presentation of payment of DMR conversion cost to IMAX Corporation for Hollywood films. | <p>We also evaluated the Group's assessment of which performance obligations are subject to estimated variable consideration under IFRS 15.</p> <p>We evaluated the Group's assessment on the appropriate application of the sales-based royalty exemption for DMR revenue streams from Chinese language films as well as the appropriate presentation of payment of DMR conversion cost to IMAX Corporation.</p> <p>We read the disclosure note with respect to the initial implementation of IFRS 15 in the Group's consolidated financial statements and assessed the consistency of the disclosure with the work performed above.</p> |

Independent Auditor's Report (Continued)

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.

Independent Auditor's Report (Continued)

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.
- 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.

Independent Auditor's Report (Continued)

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 Jane Kong.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 February 2018

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income (In thousands of U.S. dollars)

| | Notes | Years Ended 31 December | |
|--|-------|-------------------------|----------|
| | | 2017 | 2016 |
| Revenues | 6 | 126,474 | 118,532 |
| Cost of sales | 7 | (49,116) | (49,235) |
| Gross profit | 6 | 77,358 | 69,297 |
| Selling, general and administrative expenses | 7 | (14,530) | (17,083) |
| Restructuring expenses | 7, 8 | (636) | — |
| Other operating expenses | 7 | (7,087) | (6,363) |
| Operating profit | | 55,105 | 45,851 |
| Interest income | | 725 | 573 |
| Profit before income tax | | 55,830 | 46,424 |
| Income tax expense | 9 | (12,117) | (10,336) |
| Profit for the year, attributable to owners of the Company | | 43,713 | 36,088 |
| Other comprehensive income (loss): | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Change in foreign currency translation adjustments | | 8,333 | (7,392) |
| Other comprehensive income (loss): | | 8,333 | (7,392) |
| Total comprehensive income for the year, attributable to owners of the Company | | 52,046 | 28,696 |
| 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 | 22(d) | 0.12 | 0.10 |
| From profit for the year – diluted | 22(d) | 0.12 | 0.10 |

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

Consolidated Financial Statements (Continued)

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

| | | As at 31 December | |
|---|-------|-------------------|----------------|
| | Notes | 2017 | 2016 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 88,620 | 69,751 |
| Other assets | 11 | 4,403 | 4,741 |
| Deferred income tax asset | 12 | 3,291 | 1,830 |
| Financing receivables | 13 | 39,319 | 30,309 |
| Interests in a joint venture | 14 | — | — |
| | | 135,633 | 106,631 |
| Current assets | | | |
| Other assets | 11 | 2,960 | 1,796 |
| Film assets | 15 | — | 10 |
| Inventories | 16 | 5,612 | 5,731 |
| Prepayments | | 1,971 | 1,093 |
| Financing receivables | 13 | 8,450 | 5,831 |
| Trade and other receivables | 17 | 53,995 | 37,975 |
| Cash and cash equivalents | 18 | 116,678 | 105,903 |
| | | 189,666 | 158,339 |
| Total assets | | 325,299 | 264,970 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Deferred revenue | 19 | 23,876 | 21,067 |
| | | 23,876 | 21,067 |
| Current liabilities | | | |
| Trade and other payables | 20 | 18,522 | 28,459 |
| Accruals and other liabilities | 21 | 10,161 | 10,820 |
| Income tax liabilities | | 4,458 | 2,446 |
| Deferred revenue | 19 | 23,545 | 13,025 |
| | | 56,686 | 54,750 |
| Total liabilities | | 80,562 | 75,817 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 36 | 35 |
| Share premium | | 375,296 | 372,131 |
| Shares held for China long-term incentive plan | | (133) | — |
| Capital reserves | | (29,821) | (30,326) |
| Accumulated deficit | | (99,087) | (142,800) |
| Accumulated other comprehensive loss | | (1,554) | (9,887) |
| Total equity | | 244,737 | 189,153 |
| Total equity and liabilities | | 325,299 | 264,970 |

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

The financial statements on pages 123 to 199 were approved by the board of directors on 27 February 2018 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 | Shares Held for China Long-term Incentive Plan | Capital Reserves | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Loss | Total Equity |
|--|------------------|------------------|--|---------------------|--|---|-----------------|
| Balance as at 1 January 2016 | 35 | 369,864 | – | (30,794) | (178,888) | (2,495) | 157,722 |
| Comprehensive income | | | | | | | |
| Profit for the year | – | – | – | – | 36,088 | – | 36,088 |
| Other comprehensive loss | – | – | – | – | – | (7,392) | (7,392) |
| Total comprehensive loss | – | – | – | – | 36,088 | (7,392) | 28,696 |
| Exercise of stock options during the year | – | 2,267 | – | (585) | – | – | 1,682 |
| Restricted share units vested and settled | – | – | 310 | (310) | – | – | – |
| Acquisition of shares for settlement of restricted share units | – | – | (310) | – | – | – | (310) |
| China long-term incentive plan | – | – | – | 1,363 | – | – | 1,363 |
| Total transactions with owners, recognised directly in equity | – | 2,267 | – | 468 | – | – | 2,735 |
| Balance as at 31 December 2016 | 35 | 372,131 | – | (30,326) | (142,800) | (9,887) | 189,153 |
| Comprehensive income | | | | | | | |
| Profit for the year | – | – | – | – | 43,713 | – | 43,713 |
| Other comprehensive income | – | – | – | – | – | 8,333 | 8,333 |
| Total comprehensive income | – | – | – | – | 43,713 | 8,333 | 52,046 |
| Exercise of stock options during the year | 1 | 2,718 | – | (702) | – | – | 2,017 |
| Restricted share units vested and settled | – | 447 | 306 | (753) | – | – | – |
| Acquisition of shares for settlement of restricted share units | – | – | (439) | – | – | – | (439) |
| China long-term incentive plan | – | – | – | 1,960 | – | – | 1,960 |
| Total transactions with owners, recognised directly in equity | 1 | 3,165 | (133) | 505 | – | – | 3,538 |
| Balance as at 31 December 2017 | 36 | 375,296 | (133) | (29,821) | (99,087) | (1,554) | 244,737 |

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

Consolidated Financial Statements (Continued)

 Consolidated Statement of Cash Flows
 (In thousands of U.S. dollars)

| | Notes | Years Ended 31 December | |
|--|-------|-------------------------|-----------------|
| | | 2017 | 2016 |
| Cash flows from operating activities | | | |
| Cash provided by operations | 25 | 48,058 | 59,897 |
| Income taxes paid | | (12,720) | (13,174) |
| Net cash provided by operating activities | | 35,338 | 46,723 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (206) | (4,624) |
| Investment in joint revenue sharing equipment | | (24,588) | (24,214) |
| Loan to a joint venture | | (2,583) | — |
| Investment in a virtual reality fund | | (106) | — |
| Proceeds on disposal of property, plant and equipment | | 31 | — |
| Net cash used in investing activities | | (27,452) | (28,838) |
| Cash flows from financing activities | | | |
| Settlement of share-based payments | | (1,081) | (845) |
| Common shares issued — stock options exercised | | 2,017 | 1,682 |
| Net cash provided by financing activities | | 936 | 837 |
| Effects of exchange rate changes on cash | | 1,953 | (3,508) |
| Increase in cash and cash equivalents during year | | 10,775 | 15,214 |
| Cash and cash equivalents, beginning of year | | 105,903 | 90,689 |
| Cash and cash equivalents, end of year | | 116,678 | 105,903 |

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

Consolidated Financial Statements (Continued)

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

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 (including derivative instruments) at fair value through profit or loss.

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

Consolidated Financial Statements (Continued)

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: selling prices associated with the individual elements in multiple element arrangements; residual values of leased theatre systems; economic lives of leased assets; allowances for potential uncollectability of accounts receivable, financing receivables and net investment in finance leases; provisions for inventory obsolescence; anticipated future revenues for film assets; impairment provisions for film assets; depreciable lives of property, plant and equipment; impairment of available-for-sale investments; accruals for contingencies including tax contingencies; recognition of deferred income tax assets; 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.

Consolidated Financial Statements (Continued)

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

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

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(e) Financial assets (Continued)

(ii) Recognition and measurement

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

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

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

(f) Cash and cash equivalents

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

(g) Trade and other receivables

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

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

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(g) Trade and other receivables (Continued)

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

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

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

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

(h) Inventories

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

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

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

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(i) Film assets

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

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

(j) Other assets

Other assets include deferred selling costs that are direct and incremental to the acquisition of sales contracts, investments in preferred shares and investment in a virtual reality fund.

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

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

(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 | — | over the shorter of the initial term of the underlying leases plus any probable renewal terms, and the useful life of the asset |

(1) Includes equipment under joint revenue sharing arrangements.

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(k) Property, plant and equipment (Continued)

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

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

(l) Trade and other payables

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

(m) Deferred revenue

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

(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.

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition

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

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

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

Theatre systems

The Group has identified the projection system, sound system, screen system and glasses cleaning machine, theatre design support, supervision of installation, projectionist training and the use of the IMAX brand to be a single deliverable (the "System Deliverable").

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

Sales of theatre system

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)*Sales of theatre system (Continued)*

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

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

Lease of theatre system

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

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

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 lease based on the criteria set out in paragraph 10 of International Accounting Standard (“IAS”) 17, “Leases”.

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)*Lease of theatre system (Continued)*

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

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

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

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

Finance leases include joint revenue sharing arrangements which have upfront payments and meet the finance lease criteria discussed above. 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.

Improvements and Modifications

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)*Finance income*

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

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

Cost of sales arrangements and finance leases under joint revenue sharing arrangements

Costs related to theatre systems and other equipment accounted for as sales or finance leases include the cost of the equipment, purchased on a cost-plus basis, from IMAX Corporation and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theatre systems under sales and finance lease arrangements are relieved from inventory to cost of sales when revenue recognition criteria are met. Commissions are recognised as cost of sales in the month they are earned, which is typically the month of installation. Direct advertising and marketing costs for each theatre are charged to cost of sales as incurred.

Cost of operating leases under joint revenue sharing arrangements

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

Maintenance and Extended Warranty Services

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

IMAX Digital Re-Mastering (IMAX DMR)

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

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

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

Others

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

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

(p) Segment reporting

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

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(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.

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.

Consolidated Financial Statements (Continued)

2. Summary of significant accounting policies (Continued)

(r) Current and deferred income tax (Continued)

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

(s) Leases

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

(t) Employee benefits

Pension obligations

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

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

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.

Consolidated Financial Statements (Continued)

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.

Consolidated Financial Statements (Continued)

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 22(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.

Consolidated Financial Statements (Continued)

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.

3. New accounting standards and accounting changes

New standards, amendments and interpretations not yet adopted

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

IFRS 9 Financial Instruments

IFRS 9, "Financial instruments", addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The Group currently classifies its financial assets into loans and receivables (cash and cash equivalents, trade and other receivables and net financed sales receivable) which are measured at amortised cost, and available-for-sale (available-for-sale investment) which is measured at cost.

The Group's debt instruments currently classified as measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

Consolidated Financial Statements (Continued)

3. New accounting standards and accounting changes (Continued)

New standards, amendments and interpretations not yet adopted (Continued)***IFRS 9 Financial Instruments (Continued)***

The Group's equity investment currently classified as available-for-sale (AFS) will be reclassified to financial assets at fair value through profit or loss (FVPL) or other comprehensive income (FVOCI), which is being under the process of the election. Based on the fair value assessments undertaken to date, the Group does not expect material impact on the consolidated financial statements.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change of the loss allowance for the Group's trade debtors and other debt investments held at amortised cost and net investment in finance leases.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Consolidated Financial Statements (Continued)

3. New accounting standards and accounting changes (Continued)

New standards, amendments and interpretations not yet adopted (Continued)***IFRS 15 Revenue from Contracts with Customers***

IFRS 15, “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations.

Effective 1 January 2018, for the year ended 31 December 2018, the Group adopted “Revenue from Contracts with Customers” (IFRS 15) utilizing the modified retrospective approach with a cumulative catch up adjustment and will provide additional disclosures comparing results to previous IFRS in its 2018 consolidated financial statements. The Group plans to apply the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Group’s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Group’s exhibitor partners, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

The Group’s revenues from the sales of theatre systems (Systems Deliverables), provision of maintenance and extended warranty services, sale of aftermarket 3D glasses and parts, conversion of Chinese language film content into the IMAX DMR format and DMR revenue from Hollywood films are within the scope of the standard. The Group’s joint revenue sharing arrangements are not in scope of IFRS 15 due to their classification as leases.

The Group has assessed its performance obligations under its arrangements pursuant to IFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under IFRS 15 and the deliverables considered to be units of account under IAS 18.

Consolidated Financial Statements (Continued)

3. New accounting standards and accounting changes (Continued)

New standards, amendments and interpretations not yet adopted (Continued)***IFRS 15 Revenue from Contracts with Customers (Continued)***

Certain of the Group's revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of theatre systems include indexed minimum payment adjustments over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure significant reversal of revenues do not occur, require estimation and recognition at the point of revenue recognition, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater's opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Group applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

The Group's arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index adjustment on renewal each year. Under the new standard, the Group has included the future consideration from the provision of maintenance services in the relative selling price calculation at revenue recognition. The amount allocated to maintenance services is deferred and recognized over the full life of the arrangement. As the maintenance services are a stand ready obligation revenue is recognized evenly over time, which is consistent with past treatment. Under the previous recognition standard, only the first year's extended warranty and maintenance services included as part of the upfront consideration received by the Group was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year's renewal term. The Group does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change.

The DMR revenue is calculated as a percentage of box-office receipts and are recognized when box-office receipts are reported. For Chinese language film, 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 Hollywood films, the Group receives DMR revenue from IMAX Corporation and also pays IMAX Corporation corresponding DMR conversion cost. Under the new revenue standard, 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 Hollywood films should be recorded as a reduction of DMR revenue earned from IMAX Corporation.

Consolidated Financial Statements (Continued)

3. New accounting standards and accounting changes (Continued)

New standards, amendments and interpretations not yet adopted (Continued)***IFRS 15 Revenue from Contracts with Customers (Continued)***

The Group's remaining revenue streams are not significantly impacted by the new standard. The Group's balance sheet will require adjustment for contract assets and liabilities arising from the variable consideration calculations noted above.

At this point, the Group is in the process of calculating the opening retained earnings impacts of the above. The Group is implementing changes to its revenue accounting system, processes and internal controls over revenue recognition as part of the adoption of the new standard.

IFRS 16 Leases

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

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

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

Consolidated Financial Statements (Continued)

4. Financial risk

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

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

(a) Market risk

Foreign exchange risk

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

The Group's transactions are mainly denominated in US\$, RMB and 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 2017 would have been approximately \$0.5 million worse/better (2016: \$0.5 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 amounts due from related companies. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

For the year ended 31 December 2017, 32.5% (2016: 36.4%) of the Group's revenue was derived from its customers comprising 10% or more of total revenue. See note 6(a) for each significant customer's revenue by segment. As at 31 December 2017, the Group had concentration of credit risk as 42.4% (2016: 52.0%) of the total trade and other receivables due from the Group's largest two (2016: two) customers.

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

Consolidated Financial Statements (Continued)

4. Financial risk (Continued)

(a) Market risk (Continued)*Credit risk (Continued)*

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 20. 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.

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

(c) Fair value estimation

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

Consolidated Financial Statements (Continued)

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 12).

(b) Share-based compensation

Accounting estimates and assumptions made to determine share-based compensation is included in note 22(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.

(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. 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 10).

Consolidated Financial Statements (Continued)

5. Critical accounting estimates and judgements (Continued)

(e) Impairment of receivables

The Group reviews the receivables recognised at amortised cost, which are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised (note 17). The objective evidence of impairment includes observable data indicating the estimated future cash flows of individual or a portfolio of receivables has met substantial decline, or the debtor's financial condition has switched to a significant negative change. If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(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 16). 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) Impairment of available-for-sale investments

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

Consolidated Financial Statements (Continued)

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, other operating expenses, interest income and income tax expense are not allocated to the segments.

In 2017, modifications were made to the chief operating decision maker's reporting packages to reorganize the Company's two primary groups (the theatre business and the film business) to three primary groups (the network business, the theatre business and new business and other). These modifications were made to more closely align the Company's disclosures with the manner in which the chief operating decision maker manages the business. The new structure is expected to provide users of the financial statements with an enhanced understanding of how management views the business, and the drivers behind the Company's performance. Certain of the prior year's figures have been represented to conform to the current year's presentation.

The Company has identified new business and other as an additional reportable segment in 2017. The Group now has six operating and reportable segments: sales arrangements, theatre system maintenance, revenue sharing arrangements, film, other theatre, new business and other.

The Group's reportable segments are now organised under three primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box-office results and which includes the reportable segment of film and contingent rent from the revenue sharing arrangements and sales arrangements; (2) Theatre Business, representing revenue generated by the sale and installation of theatre systems and maintenance services, primarily related to the sales arrangements and theatre system maintenance reportable segments, and also includes fixed hybrid revenues and upfront installation cost 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 arrangements and revenue sharing arrangements segment is separated into Network Business and Theatre Business depending on whether the consideration is based on box-office receipts as additional information.

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 | |
|--|-------------------------|----------|
| | 2017 | 2016 |
| Revenue | | |
| Network business | | |
| Film | 27,436 | 26,650 |
| Revenue sharing arrangements — contingent rent | 18,748 | 21,072 |
| Sales arrangements — contingent rent | 430 | 427 |
| | 46,614 | 48,149 |
| Theatre business | | |
| Sales arrangements | 56,220 | 47,442 |
| Revenue sharing arrangements — upfront fees | 6,788 | 9,855 |
| Theatre system maintenance | 15,082 | 11,702 |
| Other theatre | 1,560 | 1,220 |
| | 79,650 | 70,219 |
| New business and other | 210 | 164 |
| Total | 126,474 | 118,532 |
| Gross profit | | |
| Network business | | |
| Film | 18,354 | 17,515 |
| Revenue sharing arrangements — contingent rent | 7,248 | 12,913 |
| Sales arrangements — contingent rent | 430 | 427 |
| | 26,032 | 30,855 |
| Theatre Business | | |
| Sales arrangements | 40,452 | 29,933 |
| Revenue sharing arrangements — upfront fees | 1,277 | 1,510 |
| Theatre system maintenance | 9,430 | 6,503 |
| Other theatre | 477 | 424 |
| | 51,636 | 38,370 |
| New business and other | (310) | 72 |
| Total gross profit | 77,358 | 69,297 |
| Selling, general and administrative expenses | (14,530) | (17,083) |
| Restructuring expenses | (636) | — |
| Other operating expenses | (7,087) | (6,363) |
| Interest income | 725 | 573 |
| Profit before income tax | 55,830 | 46,424 |

Consolidated Financial Statements (Continued)

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 activity 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 \$22.5 million in 2017 (2016: \$23.8 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 \$18.7 million in 2017 (2016: \$19.3 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 2017 or 2016.

Supplemental Information

(b) **Depreciation and amortisation**

| | Years Ended 31 December | |
|---|-------------------------|---------------|
| | 2017 | 2016 |
| Sales arrangements | — | 8 |
| Theatre system maintenance | 162 | 212 |
| Revenue sharing arrangements | 8,203 | 5,857 |
| Film | 7,167 | 6,843 |
| New business and other | 44 | — |
| Corporate and other non-segment specific assets | 639 | 522 |
| Total | 16,215 | 13,442 |

Consolidated Financial Statements (Continued)

6. Segment information (Continued)

Supplemental Information (Continued)
(c) Loss on disposal of property, plant and equipment

| | Years Ended 31 December | |
|---|-------------------------|------------|
| | 2017 | 2016 |
| Sales arrangements | — | 353 |
| Revenue sharing arrangements | 562 | 36 |
| Corporate and other non-segment specific assets | 137 | — |
| Total | 699 | 389 |

7. Expenses by nature

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

| | Years Ended 31 December | |
|--|-------------------------|---------------|
| | 2017 | 2016 |
| Cost of theatre system sales and finance leases | 21,080 | 24,207 |
| Depreciation, including joint revenue sharing arrangements and film cost | 16,215 | 13,442 |
| Employee salaries and benefits | 8,271 | 8,327 |
| Technology and trademark fees | 6,535 | 6,175 |
| Advertising and marketing expenses | 4,489 | 5,046 |
| Other employee expenses | 3,550 | 3,855 |
| Theatre maintenance fees | 3,163 | 3,009 |
| Share-based compensation expenses | 2,271 | 1,890 |
| Professional fees | 1,505 | 1,641 |
| Operating lease rentals in respect of office buildings | 1,197 | 1,347 |
| Travel and transportation expenses | 916 | 1,244 |
| Cost of new business | 346 | — |
| Utilities and maintenance expenses | 217 | 195 |
| Provision for receivables impairment | 146 | 146 |
| Foreign exchange (gain) loss | (590) | 500 |
| Other business expenses | 1,486 | 861 |
| Other film costs (recoveries) | 96 | (29) |
| Auditor's remuneration | | |
| — Non-audit services | 126 | 169 |
| — Audit services | 350 | 656 |
| Total costs of sales, selling, general and administrative expenses, restructuring expenses and other operating expenses | 71,369 | 72,681 |

Consolidated Financial Statements (Continued)

8. Restructuring expenses

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 are mainly comprised of employee severance costs and expenses of facilities contract termination costs. Restructuring expenses 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 \$0.6 million in restructuring expenses for the year ended 31 December 2017, to better align its organizational structure and costs with its strategy. A summary of the restructuring expenses recognised during the year ended 31 December 2017 is as follows:

| | Years Ended 31 December | |
|-------------------------------------|-------------------------|----------|
| | 2017 | 2016 |
| Employee severance and benefits | 314 | — |
| Facilities | 281 | — |
| Share-based compensation expenses | 41 | — |
| Total restructuring expenses | 636 | — |

9. Income tax expense

| | Years Ended 31 December | |
|---|-------------------------|-----------------|
| | 2017 | 2016 |
| Current income tax: | | |
| Current tax on profits for the year | (13,473) | (11,001) |
| Adjustments in respect of prior years | 36 | (48) |
| Total current income tax | (13,437) | (11,049) |
| Deferred income tax (note 12) | | |
| Origination and reversal of temporary differences | 1,320 | 713 |
| Total deferred income tax | 1,320 | 713 |
| Income tax expense | (12,117) | (10,336) |

Consolidated Financial Statements (Continued)

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 | |
|--|-------------------------|-----------------|
| | 2017 | 2016 |
| Profit before tax | 55,830 | 46,424 |
| Tax calculated at domestic tax rates applicable to profits in all respective countries | (12,335) | (10,410) |
| Tax effects of: | | |
| Income not subject to tax | 776 | 978 |
| Expenses not deductible for tax purposes | (176) | (128) |
| Withholding taxes | (445) | (673) |
| Other | 27 | (55) |
| Adjustment in respect of prior years | 36 | (48) |
| Tax charge | (12,117) | (10,336) |

The applicable tax rate reflects the impact of the income tax refund of \$1.4 million for the year ended 31 December 2017 (2016: \$1.1 million). For the year ended 31 December 2017, the weighted average applicable tax rate was 21.7% (2016: 22.3%). The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

Consolidated Financial Statements (Continued)

10. Property, plant and equipment

| | Theatre System Components | Office and Production Equipment | Leasehold Improvements | Construction in Process | Total |
|---|---------------------------|---------------------------------|------------------------|-------------------------|---------------|
| As at 1 January 2016 | | | | | |
| Cost | 64,368 | 970 | 978 | 454 | 66,770 |
| Accumulated depreciation | (13,708) | (400) | (672) | — | (14,780) |
| Net book amount | 50,660 | 570 | 306 | 454 | 51,990 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 50,660 | 570 | 306 | 454 | 51,990 |
| Exchange differences | (5,075) | (216) | (54) | (131) | (5,476) |
| Additions | 567 | 541 | 681 | 28,436 | 30,225 |
| Transfers | 25,034 | 284 | 399 | (25,717) | — |
| Disposals | (389) | — | — | — | (389) |
| Depreciation charge | (5,865) | (269) | (465) | — | (6,599) |
| Closing net book amount | 64,932 | 910 | 867 | 3,042 | 69,751 |
| As at 1 January 2017 | | | | | |
| Cost | 82,408 | 1,514 | 1,905 | 3,042 | 88,869 |
| Accumulated depreciation | (17,476) | (604) | (1,038) | — | (19,118) |
| Net book amount | 64,932 | 910 | 867 | 3,042 | 69,751 |
| Year ended 31 December 2017 | | | | | |
| Opening net book amount | 64,932 | 910 | 867 | 3,042 | 69,751 |
| Exchange differences | 4,869 | 60 | 59 | 53 | 5,041 |
| Additions | — | 206 | — | 23,650 | 23,856 |
| Transfers | 24,968 | — | 73 | (25,041) | — |
| Disposals | (562) | (20) | (148) | — | (730) |
| Depreciation charge | (8,247) | (379) | (422) | — | (9,048) |
| Impairment loss | (250) | — | — | — | (250) |
| Closing net book amount | 85,710 | 777 | 429 | 1,704 | 88,620 |
| As at 31 December 2017 | | | | | |
| 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 |

Consolidated Financial Statements (Continued)

10. 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 | |
|--|-------------------------|-------|
| | 2017 | 2016 |
| Cost of sales | 8,284 | 5,871 |
| Selling, general and administrative expenses | 764 | 728 |
| | 9,048 | 6,599 |

During the year ended 31 December 2017, the Group recorded disposal charges of \$0.7 million (2016: \$0.4 million) related to theatre system components, office and production equipment and leasehold improvements.

11. Other assets

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

| | As at 31 December | |
|---|-------------------|-------|
| | 2017 | 2016 |
| Commissions and other deferred selling expenses | 2,023 | 1,489 |
| Deposits | 93 | 102 |
| Other | 844 | 205 |
| Other assets, current | 2,960 | 1,796 |
| Investment in preferred share (note 28(c)) | 4,000 | 4,000 |
| Deposits over one year | 297 | 355 |
| Investment in a virtual reality fund (note) | 106 | — |
| Other | — | 386 |
| Other assets, non-current | 4,403 | 4,741 |
| Other assets | 7,363 | 6,537 |

Note:

The Group has a non-managing membership interest in IMAX Virtual Reality Content Fund, LLC (a Delaware limited liability company). The Group is obligated to purchase a membership interest in an amount equal to \$5.0 million.

Consolidated Financial Statements (Continued)

12. Deferred income tax

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

| | As at 31 December | |
|---|-------------------|-------|
| | 2017 | 2016 |
| Deferred income tax assets | | |
| Deferred income tax asset to be recovered after more than 12 months | 1,665 | 1,135 |
| Deferred income tax asset to be recovered within 12 months | 1,626 | 695 |
| Deferred income tax assets | 3,291 | 1,830 |
| Deferred income tax liabilities | | |
| Deferred income tax liability to be recovered after more than 12 months | — | — |
| Deferred income tax liability to be recovered within 12 months | — | — |
| Deferred income tax liabilities | — | — |

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

| | As at 31 December | |
|----------------------------------|-------------------|-------|
| | 2017 | 2016 |
| Opening balance | 1,830 | 1,309 |
| Exchange differences | 141 | (192) |
| Income statement charge (note 9) | 1,320 | 713 |
| Closing balance | 3,291 | 1,830 |

Consolidated Financial Statements (Continued)

12. Deferred income tax (Continued)

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

| | Fixed assets, inventory and other property | Share-based compensation | Accrued reserves | Others | Total |
|----------------------------------|---|-----------------------------|---------------------|--------|-------|
| As at 1 January 2016 | 68 | 835 | 437 | (31) | 1,309 |
| Credited to the income statement | 13 | 352 | 317 | 31 | 713 |
| Exchange difference | (6) | (127) | (59) | — | (192) |
| As at 31 December 2016 | 75 | 1,060 | 695 | — | 1,830 |
| Credited to the income statement | 25 | 412 | 883 | — | 1,320 |
| Exchange difference | 4 | 88 | 49 | — | 141 |
| As at 31 December 2017 | 104 | 1,560 | 1,627 | — | 3,291 |

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 \$129.0 million at 31 December 2017 (2016: \$88.2 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.

Consolidated Financial Statements (Continued)

13. 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 | |
|---|-------------------|----------|
| | 2017 | 2016 |
| Gross minimum finance lease payments receivable | 403 | 471 |
| Unearned finance income | (28) | (40) |
| Minimum finance lease payments receivable | 375 | 431 |
| Accumulated allowance for uncollectible amounts | — | — |
| Net investment in finance leases | 375 | 431 |
| Gross financed sales receivables | 62,906 | 48,037 |
| Unearned finance income | (15,512) | (12,328) |
| Financed sales receivables | 47,394 | 35,709 |
| Accumulated allowance for uncollectible amounts | — | — |
| Net financed sales receivables | 47,394 | 35,709 |
| Total financing receivables | 47,769 | 36,140 |

Consolidated Financial Statements (Continued)

13. Financing receivables (Continued)

| | As at 31 December | |
|---|-------------------|---------------|
| | 2017 | 2016 |
| Gross investment in finance leases may be analysed as follows: | | |
| No later than one year | 117 | 110 |
| Later than one year and no later than five years | 286 | 361 |
| Later than five years | — | — |
| Total gross investment in finance leases | 403 | 471 |
| Gross financed sales receivables may be analysed as follows: | | |
| No later than one year | 11,778 | 8,464 |
| Later than one year and no later than five years | 30,408 | 23,969 |
| Later than five years | 20,720 | 15,604 |
| Total financed sales receivables | 62,906 | 48,037 |
| Net investment in finance leases may be analysed as follows: | | |
| No later than one year | 105 | 96 |
| Later than one year and no later than five years | 270 | 335 |
| Later than five years | — | — |
| Total net investment in finance leases | 375 | 431 |
| Net financed sales receivables may be analysed as follows: | | |
| No later than one year | 8,345 | 5,735 |
| Later than one year and no later than five years | 21,212 | 16,611 |
| Later than five years | 17,837 | 13,363 |
| Total net financed sales receivables | 47,394 | 35,709 |

As at 31 December 2017, the financed sales receivables had a weighted average effective interest rate of 8.6% (2016: 8.9%).

Contingent rents that meet the Group's revenue recognition policy, from customers under financing arrangements, were \$0.2 million for the year ended 31 December 2017 (2016: \$0.4 million).

Consolidated Financial Statements (Continued)

13. Financing receivables (Continued)

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

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

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

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

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

As at 31 December 2017, 99% (2016: 99%) of the Group's financing receivables were in good standing.

Consolidated Financial Statements (Continued)

14. Interests in a joint venture

A new joint venture was established in 2017. As at 31 December 2017, no capital has been injected to the joint venture yet.

Details of the Group's joint venture at 31 December 2017 is 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 and 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 | — | 50% |
| IMAX Fei Er Mu YiKai (Shanghai) Equity Investment Partnership Enterprise (Limited Partnership) (note) | The PRC Limited Partnership Enterprise 6 September 2017 | Equity investment management, investment consulting | Subscribed capital of RMB9,000,000 | — | 50% |

Note:

IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. is the general partner of IMAX Fei Er Mu YiKai (Shanghai) Equity Investment Partnership Enterprise (Limited Partnership).

Consolidated Financial Statements (Continued)

15. Film assets

| | Completed and released films |
|-----------------------------|------------------------------|
| <hr/> | |
| As at 1 January 2016 | |
| Cost | 19,754 |
| Accumulated depreciation | (19,719) |
| <hr/> | |
| Net book amount | 35 |
| <hr/> | |
| Year ended 31 December 2016 | |
| Opening net book amount | 35 |
| Exchange differences | (21) |
| Additions | 6,839 |
| Depreciation charge | (6,843) |
| <hr/> | |
| Closing net book amount | 10 |
| <hr/> | |
| Year ended 31 December 2017 | |
| Opening net book amount | 10 |
| Exchange differences | 21 |
| Additions | 7,136 |
| Depreciation charge | (7,167) |
| <hr/> | |
| Closing net book amount | — |
| <hr/> | |
| As at 31 December 2017 | |
| Cost | 33,792 |
| Accumulated depreciation | (33,792) |
| <hr/> | |
| Net book amount | — |
| <hr/> | |

The Company does not expect to pay any participation payments to third parties related to these films.

Consolidated Financial Statements (Continued)

16. Inventories

| | As at 31 December | |
|----------------|-------------------|-------|
| | 2017 | 2016 |
| Finished goods | 5,612 | 5,731 |
| | 5,612 | 5,731 |

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 2017 (2016: \$nil).

The costs of inventories recognised as an expense and included in “cost of sales” amounted to \$20.7 million for the year ended 31 December 2017 (2016: \$23.9 million).

17. Trade and other receivables

| | As at 31 December | |
|---|-------------------|--------|
| | 2017 | 2016 |
| Trade receivables | 31,438 | 18,979 |
| Less: provision for impairment of trade receivables | (321) | (176) |
| Trade receivables — net | 31,117 | 18,803 |
| Receivables from IMAX Corporation (note 28(b)) | 16,448 | 14,879 |
| Loan receivable from a joint venture (note 28(b)) | 2,806 | — |
| Other accrued receivables | 3,624 | 4,293 |
| | 53,995 | 37,975 |

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

Consolidated Financial Statements (Continued)

17. 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 | |
|--------------|-------------------|--------|
| | 2017 | 2016 |
| 0–30 days | 7,848 | 7,905 |
| 31–60 days | 3,642 | 1,541 |
| 61–90 days | 4,797 | 1,350 |
| Over 90 days | 31,599 | 23,062 |
| | 47,886 | 33,858 |

As at 31 December 2017, trade receivables of \$47.9 million (2016: \$33.9 million) were fully performing.

As at 31 December 2017, trade receivables of \$31.3 million (2016: \$22.9 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 | |
|--------------|-------------------|--------|
| | 2017 | 2016 |
| Over 90 days | 31,278 | 22,886 |

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

| | As at 31 December | |
|--------------|-------------------|------|
| | 2017 | 2016 |
| Over 90 days | 321 | 176 |

At 31 December 2017, 19% (2016: 32%) of the Group's over 90 days trade and other receivables balance relates to receivables aged over one year, 53% (2016: 68%) of which do not bear interest, have no fixed repayment terms and are due on demand from IMAX Corporation.

Consolidated Financial Statements (Continued)

17. 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 | |
|------------------|-------------------|--------|
| | 2017 | 2016 |
| US\$ | 9,322 | 15,630 |
| RMB | 44,593 | 22,269 |
| Other currencies | 80 | 76 |
| | 53,995 | 37,975 |

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

| | As at 31 December | |
|--------------------------------------|-------------------|------|
| | 2017 | 2016 |
| As at 1 January | 176 | 49 |
| Provision for receivables impairment | 146 | 146 |
| Write-off | (1) | (19) |
| As at 31 December | 321 | 176 |

During the year ended 31 December 2017, the Group recorded a net provision of \$0.1 million (2016: \$0.1 million) related to trade receivables.

Consolidated Financial Statements (Continued)

18. Cash and cash equivalents

| | As at 31 December | |
|---------------------------|-------------------|---------|
| | 2017 | 2016 |
| Cash at bank and on hand | 101,374 | 91,488 |
| Short-term bank deposits | 15,304 | 14,415 |
| Cash and cash equivalents | 116,678 | 105,903 |

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

| | As at 31 December | |
|---|-------------------|----------|
| | 2017 | 2016 |
| Cash and cash equivalents denominated in US\$ | \$79,572 | \$70,376 |
| Cash and cash equivalents denominated in RMB (in thousands) | ¥213,487 | ¥218,253 |
| Cash denominated in Hong Kong dollars HK\$ (in thousands) | \$34,657 | \$31,520 |

19. Deferred revenue

| | As at 31 December | |
|-------------------------------|-------------------|--------|
| | 2017 | 2016 |
| Theatre system deposits | 41,832 | 29,486 |
| Maintenance prepayments | 5,589 | 4,526 |
| Other deferred revenue | — | 80 |
| | 47,421 | 34,092 |
| Deferred revenue, current | 23,545 | 13,025 |
| Deferred revenue, non-current | 23,876 | 21,067 |
| | 47,421 | 34,092 |

Consolidated Financial Statements (Continued)

20. Trade and other payables

| | As at 31 December | |
|--|-------------------|--------|
| | 2017 | 2016 |
| Trade payables | 2,732 | 4,943 |
| Other payables | 1,134 | 1,097 |
| Amounts due to IMAX Corporation (note 28(b)) | 14,656 | 22,419 |
| | 18,522 | 28,459 |

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

| | As at 31 December | |
|--------------|-------------------|--------|
| | 2017 | 2016 |
| 0–30 days | 8,015 | 13,205 |
| 31–60 days | 2,264 | 1,745 |
| 61–90 days | 925 | 1,288 |
| Over 90 days | 7,318 | 12,221 |
| | 18,522 | 28,459 |

As at 31 December 2017 and 2016, 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 | |
|-------|-------------------|--------|
| | 2017 | 2016 |
| RMB | 11,032 | 19,142 |
| US\$ | 7,160 | 8,675 |
| Other | 330 | 642 |
| | 18,522 | 28,459 |

Consolidated Financial Statements (Continued)

21. Accruals and other liabilities

| | As at 31 December | |
|--|-------------------|---------------|
| | 2017 | 2016 |
| Accrued marketing and advertising expenses | 1,225 | 825 |
| Accrued selling expenses | 1,204 | 1,080 |
| Accrued salaries and benefits | 817 | 1,254 |
| Accrued audit fees | 442 | 521 |
| Accrued legal fees | 183 | 325 |
| Value added tax payable | 3,549 | 2,821 |
| Withholding individual income tax | 693 | 2,743 |
| Other tax payable | 717 | 670 |
| Contingent liability (note 27) | 333 | — |
| Other accrued expenses | 998 | 581 |
| Accruals and other liabilities, total | 10,161 | 10,820 |

22. Share capital and reserves

 (a) **Share capital**

| | Number of shares | | Share capital | |
|------------------------------------|------------------|-------------|---------------|--------------|
| | 2017 | 2016 | 2017 US\$ | 2016 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 | |
|---|--------------------|--------------------|
| | 2017 | 2016 |
| Issued and fully paid | | |
| At beginning of year | 356,565,100 | 355,325,000 |
| Exercise of stock options | 1,485,000 | 1,240,100 |
| Shares issued for vested restricted share units | 74,984 | — |
| Number of shares as at 31 December 2017 | 358,125,084 | 356,565,100 |

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.

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(b) Shares held for China long-term incentive plan

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 (refer to (c) below). Shares issued to employees are recognised on a first-in-first-out basis.

| | Number of shares | | US\$'000 | |
|---|------------------|----------|----------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Shares held for China long-term incentive plan | | | | |
| At beginning of year | — | — | — | — |
| Acquisition of shares by the Trust | 158,269 | 58,254 | 439 | 310 |
| Issued to employees for vested restricted share units | (114,369) | (58,254) | (306) | (310) |
| At end of year | 43,900 | — | 133 | — |

(c) Share-based payments

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

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

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

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

The compensation costs recorded in the consolidated statement of comprehensive income for these plans were \$2.3 million in the year ended 31 December 2017 (2016: \$1.9 million).

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

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.

The Group recorded an expense of less than \$0.1 million in the year ended 31 December 2017 (2016: \$0.1 million) related to stock option grants issued to Group employees in the IMAX LTIP and SOP plans.

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(c) Share-based payments (Continued)
SOP and IMAX LTIP (Continued)

The weighted average fair value of all stock options, granted to Group employees in the year ended 31 December 2017 at the measurement date was \$8.92 per share (2016: \$8.57 per share). The following assumptions were used to estimate the average fair value of the stock options:

| | Years Ended 31 December | |
|---------------------------------|-------------------------|---------|
| | 2017 | 2016 |
| Grant date share price | \$32.45 | \$31.85 |
| Exercise price | \$32.45 | \$31.85 |
| Average risk-free interest rate | 2.40% | 1.72% |
| Expected option life (in years) | 4.80 | 4.88 |
| Expected volatility | 30% | 30% |
| Dividend yield | 0% | 0% |
| Early exercise multiple | 1.28 | 1.28 |

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 | |
|----------------------------------|--|---------|---|-------|
| | 2017 | 2016 | 2017 | 2016 |
| | Options outstanding, beginning of year | 66,911 | 57,645 | 30.97 |
| Granted | 4,204 | 4,376 | 32.45 | 31.85 |
| Transferred in | — | 7,877 | — | 32.01 |
| Transferred out | (34,115) | — | 30.32 | — |
| Exercised | — | (2,987) | — | 15.01 |
| Options outstanding, end of year | 37,000 | 66,911 | 31.73 | 30.97 |
| Options exercisable, end of year | 37,000 | 49,570 | 31.73 | 31.17 |

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

SOP and IMAX LTIP (Continued)

No stock options were surrendered or cancelled by Group employees in the year ended 31 December 2017 (2016: none).

In respect of the stock options exercised during the year, the weighted average stock price at the dates of exercise is \$32.70 for the year ended 31 December 2016. As at 31 December 2017, the weighted average remaining contractual life of options outstanding is 0.5 years (2016: 2.3 years).

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.

During the year ended 31 December 2017, the Group recorded an expense of \$0.2 million (2016: \$0.5 million) 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.

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

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

China Long-Term Incentive Plan (“China LTIP”) (Continued)

China IPO Options Summary (Continued)

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 | |
|--|------------------|-------------|---|------|
| | 2017 | 2016 | 2017 | 2016 |
| Options outstanding, beginning of year | 7,737,400 | 8,977,500 | 1.42 | 1.41 |
| Exercised | (1,485,000) | (1,240,100) | 1.36 | 1.36 |
| Options outstanding, end of year | 6,252,400 | 7,737,400 | 1.43 | 1.42 |
| Options exercisable, end of year | 6,252,400 | 4,635,760 | 1.43 | 1.43 |

In respect of the China IPO Options exercised during the year, the weighted average stock price at the dates of exercise is \$3.05 (2016: \$5.67). As at 31 December 2017, the weighted average remaining contractual life of options outstanding is 2.8 years (2016: 3.6 years).

China Options Summary

During the year ended 31 December 2017, 415,094 (2016: 139,579) 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 2017, the Group recorded an expense of \$0.3 million (2016: less than \$0.1 million) related to China Options issued under the China LTIP.

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(c) Share-based payments (Continued)
China Long-Term Incentive Plan ("China LTIP") (Continued)

China Options Summary (Continued)

The weighted average fair value of China Options granted in the year ended 31 December 2017 at the measurement date was \$1.08 per share (2016: \$1.52 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:

| | Years Ended 31 December | | |
|---------------------------------|-------------------------|-----------|-----------|
| | 2017 | 2017 | 2016 |
| | A | B | |
| Grant date share price | HK\$36.35 | HK\$20.35 | HK\$45.05 |
| Exercise price | HK\$36.94 | HK\$21.43 | HK\$45.31 |
| Average risk-free interest rate | 1.66% | 2.10% | 1.13% |
| Expected option life (in years) | 4.27 | 4.94 | 4.27 |
| Expected volatility | 30% | 30% | 30% |
| Dividend yield | 0% | 0% | 0% |
| Early exercise multiple | 1.28 | 1.42 | 1.28 |

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

| | Number of Shares | | Weighted Average Exercise Price Per Share | |
|--|------------------|---------|---|------|
| | 2017 | 2016 | 2017 | 2016 |
| Options outstanding, beginning of year | 139,579 | — | 5.84 | — |
| Granted | 415,094 | 139,579 | 4.10 | 5.84 |
| Options outstanding, end of year | 554,673 | 139,579 | 4.53 | 5.84 |
| Options exercisable, end of year | 87,892 | — | 5.84 | — |

As at 31 December 2017, the weighted average remaining contractual life of options outstanding is 6.0 years (2016: 6.2 years).

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

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

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

Cash Settled China Awards

In 2012, certain employees of the Group were given CSSBP which are tied to the appreciation in the value of the Group. The CSSBP represent the right to receive cash payments in an amount equal to 0.3% of the excess of the total equity value of the Group based on the per share price in the Qualified IPO or Change in Control over the strike price of the CSSBP. The CSSBP were issued in conjunction with the China LTIP, with similar terms and conditions as the China IPO Options. During the year ended 31 December 2017, the Group recorded an expense of \$0.1 million (2016: \$0.2 million) related to the CSSBP.

The carrying amount of the liability relating to the CSSBP transactions as of 31 December 2017 is \$nil (2016: \$0.5 million). During the year ended 31 December 2017, the remaining portion of the CSSBP awards vested and were settled in cash for \$0.6 million (2016: \$0.5 million).

Restricted Share Units

RSUs have been granted to employees of the Group under the IMAX LTIP. Each RSU represents a contingent right to receive one common share of IMAX Corporation and is the economic equivalent of one common share of IMAX Corporation. RSUs were not issued before 2013. The grant date fair value of each RSU is equal to the share price of IMAX Corporation's stock at the grant date. The Group recorded an expense of \$0.2 million for the year ended 31 December 2017 (2016: \$0.3 million) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the year ended 31 December 2017 was zero (2016: 8.08%).

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 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 | |
|-------------------------------------|------------------|---------|---|-------|
| | 2017 | 2016 | 2017 | 2016 |
| RSUs outstanding, beginning of year | 18,276 | 11,823 | 33.21 | 31.48 |
| Granted | 3,467 | 3,533 | 32.45 | 31.85 |
| Transferred in | — | 9,045 | — | 34.64 |
| Transferred out | (11,655) | — | 33.75 | — |
| Vested and settled | (8,792) | (6,125) | 31.77 | 31.21 |
| RSUs outstanding, end of year | 1,296 | 18,276 | 36.09 | 33.21 |

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

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

China RSUs

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 \$1.4 million for the year ended 31 December 2017 (2016: \$0.7 million) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the year ended 31 December 2017 was nil (2016: nil).

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

China RSUs 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 | |
|-------------------------------------|------------------|----------|---|------|
| | 2017 | 2016 | 2017 | 2016 |
| RSUs outstanding, beginning of year | 174,975 | — | 5.81 | — |
| Granted | 567,862 | 239,821 | 3.85 | 5.65 |
| Vested and settled | (189,353) | (58,254) | 3.98 | 5.16 |
| Forfeited | (29,655) | (6,592) | 4.88 | 5.81 |
| RSUs outstanding, end of year | 523,829 | 174,975 | 4.39 | 5.81 |

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(d) 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 | |
|--|-------------------------|---------|
| | 2017 | 2016 |
| Profit for the year | 43,713 | 36,088 |
| Weighted average number of common shares (in '000s): | | |
| Issued and outstanding, beginning of year | 356,565 | 355,325 |
| Weighted average number of shares issued during the year | 202 | 509 |
| Weighted average number of shares used in computing basic earnings per share | 356,767 | 355,834 |
| Adjustments for: | | |
| Stock options | 4,624 | 6,226 |
| Restricted share units | 116 | — |
| Weighted average number of shares used in computing diluted earnings per share | 361,507 | 362,060 |

(e) Reserves

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

Capital reserve

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

Consolidated Financial Statements (Continued)

22. Share capital and reserves (Continued)

(e) 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 discretionary 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 2017, accordingly, no statutory reserves were appropriated (31 December 2016: \$nil).

23. 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 carrying values of the Group's cash and cash equivalents, trade and other receivables, trade and other payables and accruals and other liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Group's other financial instruments at the following year ends are comprised of the following:

| | As at 31 December 2017 | | As at 31 December 2016 | |
|----------------------------------|------------------------|----------------------|------------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Net financed sales receivable | 47,394 | 48,206 | 35,709 | 36,901 |
| Net investment in finance leases | 375 | 375 | 431 | 431 |
| Available-for-sale investment | 4,000 | n/a | 4,000 | n/a |

Consolidated Financial Statements (Continued)

23. Financial instruments (Continued)

(b) Fair value measurements (Continued)

| | Loans and receivables | Available-for-sale | Total |
|---|---|----------------------------------|---------|
| 31 December 2017 | | | |
| Assets as per statement of financial position | | | |
| Available-for-sale investment | — | 4,000 | 4,000 |
| Net financed sales receivable | 47,394 | — | 47,394 |
| Net investment in finance leases | 375 | — | 375 |
| Trade and other receivables | 53,995 | — | 53,995 |
| Cash and cash equivalents | 116,678 | — | 116,678 |
| | 218,442 | 4,000 | 222,442 |
| | Liabilities at fair value through profit or loss | Liabilities at amortised cost | Total |
| Liabilities as per statement of financial position | | | |
| Trade and other payables | — | 18,522 | 18,522 |
| | — | 18,522 | 18,522 |

Consolidated Financial Statements (Continued)

23. Financial instruments (Continued)

(b) Fair value measurements (Continued)

| | Loans and receivables | Available-for-sale | Total |
|---|--------------------------|--------------------|---------|
| 31 December 2016 | | | |
| Assets as per statement of financial position | | | |
| Available-for-sale investment | — | 4,000 | 4,000 |
| Net financed sales receivable | 35,709 | — | 35,709 |
| Net investment in finance leases | 431 | — | 431 |
| Trade and other receivables | 37,975 | — | 37,975 |
| Cash and cash equivalents | 105,903 | — | 105,903 |
| | 180,018 | 4,000 | 184,018 |
| Liabilities as per statement of financial position | | | |
| Trade and other payables | — | 28,459 | 28,459 |
| | — | 28,459 | 28,459 |

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 2017 and 2016, respectively.

In 2014, the Company purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of \$4.0 million. The investment is classified as available-for-sale. The preferred share does not have a quoted price in an active market and its fair value cannot be reliably measured, accordingly, it is measured at cost.

The estimated fair values of the net financed sales receivable and net investment in finance leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms as at 31 December 2017 and 2016, respectively.

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2017 (2016: 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.

Consolidated Financial Statements (Continued)

24. Employee benefit expense

(a) Employee benefit expense

Staff costs during the year were as follows:

| | Years Ended 31 December | |
|------------------------------------|-------------------------|--------|
| | 2017 | 2016 |
| Wages and salaries | 7,570 | 7,685 |
| Social security costs | 243 | 224 |
| Stock options granted to employees | 2,271 | 1,890 |
| Pension and other costs | 458 | 418 |
| | 10,542 | 10,217 |

(b) Directors' emoluments

The remuneration of the directors for the year ended 31 December 2017 are set out below:

| | Year Ended 31 December 2017 | | | | | | |
|--|-----------------------------|----------|-------|--------------------------|---------|--------------------|-------|
| | Fee | Salaries | Bonus | Share-based compensation | Pension | Other ¹ | Total |
| Executive Directors | | | | | | | |
| Jiande Chen | — | 450 | 184 | 223 | 6 | 190 | 1,053 |
| Jim Athanasopoulos | — | 309 | 92 | 499 | 16 | 459 | 1,375 |
| Mei-Hui Chou (Jessie) | — | 349 | 99 | 166 | — | 178 | 792 |
| Non-executive Directors | | | | | | | |
| Richard Gelfond | — | — | — | — | — | — | — |
| Greg Foster | — | — | — | — | — | — | — |
| Ruigang Li | — | — | — | — | — | — | — |
| Independent Non-executive Directors | | | | | | | |
| Yue-Sai Kan | 60 | — | — | 100 | — | — | 160 |
| John Davison | 65 | — | — | 100 | — | — | 165 |
| Dawn Taubin | 60 | — | — | 100 | — | — | 160 |

Consolidated Financial Statements (Continued)

24. Employee benefit expense (Continued)

(b) Directors' emoluments (Continued)

The remuneration of the directors for the year ended 31 December 2016 are set out below:

| | Year Ended 31 December 2016 | | | | | | Total |
|--|-----------------------------|----------|-------|--------------------------|---------|--------------------|-------|
| | Fee | Salaries | Bonus | Share-based compensation | Pension | Other ¹ | |
| Executive Directors | | | | | | | |
| Jiande Chen | — | 400 | 157 | 57 | 6 | 207 | 827 |
| Jim Athanasopoulos | — | 267 | 81 | 265 | 13 | 422 | 1,048 |
| Mei-Hui Chou (Jessie) | — | 317 | 95 | 117 | — | 189 | 718 |
| Non-executive Directors | | | | | | | |
| Richard Gelfond | — | — | — | — | — | — | — |
| Greg Foster | — | — | — | — | — | — | — |
| Ruigang Li | — | — | — | — | — | — | — |
| Independent Non-executive Directors | | | | | | | |
| Yue-Sai Kan | 60 | — | — | 100 | — | — | 160 |
| John Davison | 65 | — | — | 100 | — | — | 165 |
| Dawn Taubin | 60 | — | — | 100 | — | — | 160 |

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

The remuneration of certain non-executive directors of the Company was borne by IMAX Corporation and other related parties. No allocation of the remuneration between these related parties and the Group have been made during the years presented.

Directors' remuneration includes any emoluments paid to or receivable in respect of services as a director of the Company or in connection with the management of the affairs of the Group.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Consolidated Financial Statements (Continued)

24. Employee benefit expense (Continued)

(c) Five highest paid individuals

For the year ended 31 December 2017, the five individuals whose emoluments were the highest in the Group which includes 2 directors (2016: 2) whose emoluments are reflected in the analysis above, are as follows:

| | Years Ended 31 December | |
|----------------------------|-------------------------|-------|
| | 2017 | 2016 |
| Basic salary and allowance | 1,069 | 1,150 |
| Bonus | 4,090 | 3,562 |
| Share-based compensation | 1,298 | 830 |
| Other ¹ | 897 | 1,021 |
| Pension | 22 | 27 |
| | 7,376 | 6,590 |

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 | |
|-----------------------|--|------|
| | 2017 | 2016 |
| In HK\$ | | |
| 4,500,001–5,000,000 | — | 1 |
| 5,500,001–6,000,000 | — | 1 |
| 6,000,001–6,500,000 | — | 1 |
| 6,500,001–7,000,000 | 1 | — |
| 8,000,001–8,500,000 | 1 | — |
| 10,000,001–10,500,000 | — | 1 |
| 10,500,001–11,000,000 | 1 | — |
| 13,500,001–14,000,000 | 1 | — |
| 17,000,001–17,500,000 | — | 1 |
| 18,000,001–18,500,000 | 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.

Consolidated Financial Statements (Continued)

24. 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 | |
| | 2017 | 2016 |
| In HK\$ | | |
| 2,500,001–3,000,000 | — | 1 |
| 3,000,001–3,500,000 | 1 | — |
| 4,500,001–5,000,000 | — | 2 |
| 5,500,001–6,000,000 | — | 1 |
| 6,000,001–6,500,000 | 1 | 1 |
| 6,500,001–7,000,000 | 1 | — |
| 8,000,001–8,500,000 | 1 | — |
| 10,000,001–10,500,000 | — | 1 |
| 10,500,001–11,000,000 | 1 | — |
| 13,500,001–14,000,000 | 1 | — |
| 17,000,001–17,500,000 | — | 1 |
| 18,000,001–18,500,000 | 1 | — |
| | 7 | 7 |

Consolidated Financial Statements (Continued)

25. Statement of cash flow supplemental information

Cash provided by operations

| | Notes | Years ended 31 December | |
|---|-------|-------------------------|---------------|
| | | 2017 | 2016 |
| Profit before income tax for the year | | 55,830 | 46,424 |
| Adjustment for: | | | |
| Amortisation of film assets | 15 | 7,167 | 6,843 |
| Depreciation of property, plant and equipment | 10 | 9,048 | 6,599 |
| Equity settled and other non-cash compensation | | 2,271 | 1,890 |
| Loss on disposal of property, plant and equipment | | 699 | 389 |
| Write-downs | | 442 | 166 |
| Foreign exchange loss | | (374) | 484 |
| Investment in film assets | | (7,136) | (6,839) |
| Changes in working capital | | | |
| Trade and other receivables | | (10,123) | (1,339) |
| Inventories | | 762 | 106 |
| Financing receivables | | (9,999) | (8,368) |
| Trade and other payables | | (8,908) | 15,140 |
| Accruals and other liabilities | | (1,048) | 3,585 |
| Deferred revenue | | 10,779 | (4,678) |
| Prepayments | | (758) | (108) |
| Other assets | | (594) | (397) |
| Cash provided by operations | | 48,058 | 59,897 |

26. Commitments

(a) Capital commitments

As at the end of the year, the Group's capital expenditure commitment is shown below:

| | As at 31 December | |
|---|-------------------|--------|
| | 2017 | 2016 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| Acquisition of property, plant and equipment | 84 | 1,426 |
| Capital injection to a film fund | 25,000 | 25,000 |
| Investment in a virtual reality fund | 4,894 | — |
| Capital expenditure authorised but not contracted in respect of: | | |
| Investment in a virtual reality fund | — | 5,000 |

Consolidated Financial Statements (Continued)

26. Commitments (Continued)

(b) Operating lease commitments – Group as lessee

The Group leases various offices, apartments, and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As at 31 December | |
|-----------------------|-------------------|-------|
| | 2017 | 2016 |
| Within one year | 1,573 | 1,729 |
| Between 1 and 2 years | 355 | 1,341 |
| Between 2 and 3 years | 10 | 144 |
| | 1,938 | 3,214 |

Rent expense was \$1.2 million for the year ended 31 December 2017 (2016: \$1.3 million).

27. 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.

Consolidated Financial Statements (Continued)

27. Contingencies and guarantees (Continued)

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, the Company paid RMB1 million (approximately US\$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment. Given that the amount of the underpayment exceeds RMB200,000, the Company has been advised that the matter may be treated as a criminal rather than as an administrative matter. During the year ended 31 December 2017, the Company accrued US\$0.3 million in respect of fines that it believes are likely to result from the matter. The Company has been advised that the range of potential penalties is between three and five times the underpayment depending on whether the matter is assessed as criminal or administrative; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that these actual fines or other penalties may be greater or less than the amount accrued or the expected range.

Financial guarantees

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

28. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Controlling Shareholder of the Company is IMAX Corporation (incorporated in Canada) which holds 67.93% of the Company’s shares as at 31 December 2017.

Consolidated Financial Statements (Continued)

28. 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 | |
|---|-------------------------|--------|
| | 2017 | 2016 |
| Purchase of goods: | | |
| IMAX Corporation (theatres systems) | 33,305 | 41,303 |
| Purchase of services: | | |
| IMAX Corporation (film related transactions) | 7,148 | 6,802 |
| IMAX Corporation (management fees — legal and administration services) | 661 | 537 |
| Other transactions: | | |
| IMAX Corporation (reimbursement of compensation of Company employees paid by IMAX Corporation) | 2,916 | 2,644 |
| IMAX Corporation (trademark and technology fees) | 6,535 | 6,175 |
| IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (loan to) | 2,583 | — |
| IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (interest income) | 126 | — |
| Revenue earned from film services through IMAX Corporation | 18,496 | 19,014 |
| Revenue earned from maintenance services provided to IMAX Corporation | 224 | 306 |

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

(b) Year-end balances

| | As at 31 December | |
|---|-------------------|--------|
| | 2017 | 2016 |
| Receivables from related parties (note 17): | | |
| IMAX Corporation | 16,448 | 14,879 |
| Loan receivable from a joint venture (note 17): | | |
| IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. | 2,806 | — |
| Payables to related parties (note 20): | | |
| IMAX Corporation | 14,656 | 22,419 |

Consolidated Financial Statements (Continued)

28. Related party transactions (Continued)

(b) Year-end balances (Continued)

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 for the following:

IMAX Fei Er Mu (Shanghai) Equity Investment Management Co., Ltd. is owned by one of the Company's subsidiaries and the Group owns 50% equity interest. The loan receivable from IMAX Fei Er Mu (Shanghai) Equity Investment Management Co., Ltd. is unsecured, with a fixed interest rate and repayable within one year.

(c) Other related party transactions

| | As at 31 December | |
|---|-------------------|-------|
| | 2017 | 2016 |
| Investment in IMAX (Hong Kong) Holding, Limited | 4,000 | 4,000 |

The Group has a preferred share investment in IMAX (Hong Kong) Holding, Limited, an entity owned by one of the Controlling Shareholder's subsidiaries, which holds an investment in a joint venture and is accounted for as available-for-sale investment at cost (note 23(b)). The Group legally transferred a note receivable as consideration for the preferred share investment. The agreement's key terms, which will be fully defined in a subsequent agreement, currently provide the Group with right to dividends and other distributions, redemption rights should IMAX Corporation sell all or part of its interest in the investment and the right to nominate one representative to the Board of Directors.

(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 | |
|---|-------------------------|-------|
| | 2017 | 2016 |
| Salaries and other short-term employee benefits | 5,752 | 5,305 |
| Post-employment benefits | 27 | 26 |
| Other benefits ¹ | 1,210 | 1,376 |
| Share-based compensation | 1,602 | 1,263 |
| | 8,591 | 7,970 |

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

Consolidated Financial Statements (Continued)

29. Government grants

The following government grants have been recognised in comprehensive income:

| | Years Ended 31 December | |
|--|-------------------------|-------|
| | 2017 | 2016 |
| Cost of sales | 563 | 1,605 |
| Selling, general and administrative expenses | 457 | 599 |
| | 1,020 | 2,204 |

Consolidated Financial Statements (Continued)

30. Balance sheet and reserve movement of the Company

(a) Balance sheet

| | As at 31 December | |
|--|-------------------|-----------|
| | 2017 | 2016 |
| ASSETS | | |
| Non-current assets | | |
| Investment in subsidiaries | 32,538 | 32,538 |
| Other assets | 843 | 462 |
| | 33,381 | 33,000 |
| Current assets | | |
| Prepayments | 115 | 131 |
| Trade and other receivables | 21,762 | 20,642 |
| Cash and cash equivalents | 57,781 | 56,239 |
| | 79,658 | 77,012 |
| Total Assets | 113,039 | 110,012 |
| LIABILITIES | | |
| Current liabilities | | |
| Trade and other payables | 8,696 | 8,137 |
| Accrued and other liabilities | 228 | 506 |
| | 8,924 | 8,643 |
| Total Liabilities | 8,924 | 8,643 |
| EQUITY | | |
| Share capital | 36 | 35 |
| Share premium | 375,296 | 372,131 |
| Shares held for China long-term incentive plan | (133) | — |
| Capital reserve | 2,998 | 2,493 |
| Accumulated deficit | (274,082) | (273,290) |
| Total Equity | 104,115 | 101,369 |
| Total Equity and Liabilities | 113,039 | 110,012 |

Balance sheet of the Company was approved by the board of directors on 27 February 2018 and was signed on its behalf

Jiande Chen
Director

Jim Athanasopoulos
Director

Consolidated Financial Statements (Continued)

30. Balance sheet and reserve movement of the Company (Continued)

(b) Reserve movement

| | Share Capital | Share Premium | Shares Held for China Long-term Incentive Plan | Capital Reserve | Accumulated Deficit | Total Equity |
|--|------------------|------------------|---|--------------------|------------------------|-----------------|
| Balance as at 1 January 2016 | 35 | 369,864 | — | 349 | (271,375) | 98,873 |
| Comprehensive loss | | | | | | |
| Loss for the year | — | — | — | — | (1,915) | (1,915) |
| Total comprehensive loss | — | — | — | — | (1,915) | (1,915) |
| Controlling Shareholder's net investment | — | — | — | 1,676 | — | 1,676 |
| Restricted share units vested and settled | — | — | 310 | (310) | — | — |
| Acquisition of shares for settlement of restricted share units | — | — | (310) | — | — | (310) |
| Exercise of stock options during the year | — | 2,267 | — | (585) | — | 1,682 |
| China long-term incentive plan | — | — | — | 1,363 | — | 1,363 |
| Total transactions with owners, recognised directly in equity | — | 2,267 | — | 2,144 | — | 4,411 |
| Balance as at 31 December 2016 | 35 | 372,131 | — | 2,493 | (273,290) | 101,369 |
| Comprehensive loss | | | | | | |
| Loss for the year | — | — | — | — | (792) | (792) |
| Total comprehensive loss | — | — | — | — | (792) | (792) |
| Exercise of stock options during the year | 1 | 2,718 | — | (702) | — | 2,017 |
| Restricted share units vested and settled | — | 447 | 306 | (753) | — | — |
| Acquisition of shares for settlement of restricted share units | — | — | (439) | — | — | (439) |
| China long-term incentive plan | — | — | — | 1,960 | — | 1,960 |
| Total transactions with owners, recognised directly in equity | 1 | 3,165 | (133) | 505 | — | 3,538 |
| Balance as at 31 December 2017 | 36 | 375,296 | (133) | 2,998 | (274,082) | 104,115 |

Consolidated Financial Statements (Continued)

30. Balance sheet and reserve movement of the Company (Continued)

(c) **Subsidiaries**

The following is a list of the principal subsidiaries as at 31 December 2017:

| Name of the Company | Place of incorporation, kind of legal entity and date of incorporation | Principal activities and place of operation | Issued shares and paid up capital | Proportion of ordinary shares directly held by parent (%) | Proportion of ordinary shares held by the Group (%) |
|---|--|--|--|---|---|
| IMAX China (Hong Kong), Limited | Hong Kong S.A.R Limited Liability Company 12 November 2010 | Sale and lease of theatre systems and associated film performance in Greater China | 2 ordinary shares for HK39,000,000 12 ordinary shares for US\$ 27,538,341 | 100% | 100% |
| IMAX (Shanghai) Multimedia Technology Co., Ltd. | The PRC Wholly owned foreign-enterprise 31 May 2011 | Sale and lease of theatre systems and associated film performance in Mainland China | Paid in capital of US\$ 11,500,000 | — | 100% |
| IMAX (Shanghai) Theatre Technology Services Co., Ltd. | The PRC Wholly owned foreign-enterprise 9 November 2011 | Technological development of theatre systems, provision of after-sales services (including installation), maintenance and repair of theatre systems and equipment in the PRC | Paid in capital of US\$ 200,000 | — | 100% |
| IMAX (Shanghai) Digital Media Co., Ltd. | The PRC Limited Liability Company (wholly owned by foreign-invested enterprise) 23 December 2016 | Technological development, technological transfer, technological consultation and technological services in the fields of digital media technology in the PRC | Registered capital of RMB100,000 | — | 100% |

Consolidated Financial Statements (Continued)

30. Balance sheet and reserve movement of the Company (Continued)

(c) 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 and paid up capital | Proportion of ordinary shares directly held by parent (%) | Proportion of ordinary shares held by the Group (%) |
|--|--|--|------------------------------------|---|---|
| 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 and electronic product; ticket agency; design, production, agency and publishing of advertisements; technology development, technology consulting, technology services, technology transfer in the field of computer information; handicraft design, gift design; culture and art exchange and planning; business consulting; creation services; conference services; e-commerce business (excluding telecom value-added services and financial services) in the PRC | Registered capital of RMB2,000,000 | — | 100% |

Consolidated Financial Statements (Continued)

30. Balance sheet and reserve movement of the Company (Continued)

(d) Dividends

No dividends were declared or paid during the year ended 31 December 2017 (2016: none). During the board meeting held on 27 February 2018, the Board recommended a final dividend of \$0.04 per share (equivalent to approximately HK\$0.31 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 2017 final dividend is expected to be distributed to shareholders on or around 31 May 2018. There will be no scrip dividend option for the 2017 final dividend. The proposed dividend has not been provided for in the consolidated financial statements for the year ended 31 December 2017.

Financial Summary

| | FY2017 | | FY2016 | | FY2015 | | FY2014 | | FY2013 | |
|--|---------------|--------------|----------|----------|-----------|----------|----------|---------|----------|---------|
| | US\$'000 | % | US\$'000 | % | US\$'000 | % | US\$'000 | % | US\$'000 | % |
| Revenues | 126,474 | 100.0% | 118,532 | 100.0% | 110,591 | 100.0% | 78,218 | 100.0% | 55,949 | 100.0% |
| Cost of sales | (49,116) | (38.8)% | (49,235) | (41.50)% | (38,311) | (34.6)% | (31,758) | (40.6)% | (23,701) | (42.4)% |
| Gross profit | 77,358 | 61.2% | 69,297 | 58.5% | 72,280 | 65.4% | 46,460 | 59.4% | 32,248 | 57.6% |
| Selling, general and administrative expenses | (14,530) | (11.5)% | (17,083) | (14.4)% | (23,859) | (21.6)% | (11,251) | (14.4)% | (8,867) | (15.8)% |
| Restructuring expenses | (636) | (0.5)% | — | — | — | — | — | — | — | — |
| Other operating expenses | (7,087) | (5.6)% | (6,363) | (5.4)% | (6,050) | (5.5)% | (4,045) | (5.2)% | (2,445) | (4.4)% |
| Operating profit | 55,105 | 43.6% | 45,851 | 38.7% | 42,371 | 38.3% | 31,164 | 39.8% | 20,936 | 37.4% |
| Accretion of amortised cost of financial instrument | — | — | — | — | (3,790) | (3.4)% | (1,732) | (2.2)% | — | — |
| Fair value adjustment of conversion option | — | — | — | — | (209,884) | (189.8)% | (577) | (0.7)% | — | — |
| Interest income | 725 | 0.6% | 573 | 0.5% | 436 | 0.4% | 221 | 0.3% | 14 | 0.0% |
| Interest expense | — | — | — | — | — | — | (10) | (0.0)% | — | — |
| Profit (loss) before income tax | 55,830 | 44.2% | 46,424 | 39.2% | (170,867) | (154.5)% | 29,066 | 37.2% | 20,950 | 37.4% |
| Income tax expense | (12,117) | (9.6)% | (10,336) | (8.8)% | (10,998) | (9.9)% | (6,285) | (8.0)% | (3,495) | (6.2)% |
| Profit (loss) for the year, attributable to owners of the Company | 43,713 | 34.6% | 36,088 | 30.4% | (181,865) | (164.4)% | 22,781 | 29.2% | 17,455 | 31.2% |
| Other comprehensive income (loss): | | | | | | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | | | | | | |
| Change in foreign currency translation adjustments | 8,333 | 6.6% | (7,392) | (6.2)% | (2,207) | (2.0)% | (199) | (0.3)% | (89) | (0.2)% |
| Other comprehensive income (loss), net of tax | 8,333 | 6.6% | (7,392) | (6.2)% | (2,207) | (2.0)% | (199) | (0.3)% | (89) | (0.2)% |
| Total comprehensive income (loss) for the year, attributable to owners of the Company | 52,046 | 41.2% | 28,696 | 24.2% | (184,072) | (166.4)% | 22,582 | 28.9% | 17,366 | 31.0% |

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------------------|----------------|----------|----------|----------|----------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Total assets | 325,299 | 264,970 | 222,162 | 151,176 | 85,338 |
| Total liabilities | 80,562 | 75,817 | 64,440 | 124,868 | 82,195 |
| Total equity | 244,737 | 189,153 | 157,722 | 26,308 | 3,143 |

Definitions

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

| | |
|---|--|
| “Articles of Association” | the articles of association of the Company adopted on 21 September 2015 and effective from the Listing Date, as amended from time to time |
| “Board” or “Board of Directors” | the board of directors of the Company |
| “business day” | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time |
| “Company” or “IMAX China” | IMAX China Holding, Inc., a company incorporated under the laws of the Cayman Islands with limited liability on 30 August 2010 |
| “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” | shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires |
| “Contingency Agreements” | contingency agreements in place to guard against any failure of supply by IMAX Corporation. See “Relationship with our Controlling Shareholders” in the Prospectus for further details |
| “CG Code” | the Corporate Governance Code set out in Appendix 14 of the Listing Rules |
| “Directors” | the directors of the Company and “ Director ” shall be construed accordingly as a director of the Company |
| “EBITDA” | profit for the year with adjustments for depreciation and amortization, interest income and income tax expense |

Definitions (Continued)

| | |
|--|---|
| “Escrow Documents” | the design plans, specifications and know-how necessary to enable the Group to manufacture and assemble IMAX digital xenon projection systems, IMAX laser-based digital projection systems and nXos2 audio systems itself, or subcontract the manufacturing and assembly works to third party manufacturers and to convert conventional films into IMAX films |
| “FY” or “financial year” | financial year ended or ending 31 December |
| “Global Offering” | the offering of the Shares on the Main Board of the Stock Exchange |
| “Greater China” | for the purposes of this document only, the PRC, Hong Kong, Macau and Taiwan |
| “Group”, “we”, “our” or “us” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “IFRS” | International Financial Reporting Standards issued by the International Accounting Standards Board |
| “IMAX Barbados” | IMAX (Barbados) Holding, Inc., a company incorporated in Barbados with limited liability on 18 August 2010 and a controlling shareholder of the Company |
| “IMAX Corporation” or the “Controlling Shareholder” | IMAX Corporation, a company incorporated in Canada with limited liability in 1967 and listed on the New York Stock Exchange (NYSE: IMAX) and our ultimate controlling shareholder, or where the context requires, any of its wholly-owned subsidiaries |
| “IMAX Hong Kong” | IMAX China (Hong Kong), Limited, a company incorporated in Hong Kong with limited liability on 12 November 2010, which changed its name to its present name on 16 March 2011 and a direct wholly-owned subsidiary of the Company |

Definitions (Continued)

| | |
|--------------------------------------|---|
| “IMAX Hong Kong Holding” | IMAX (Hong Kong) Holding, Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of IMAX Barbados |
| “IMAX Hong Kong Theatre Percentage” | the percentage that all IMAX theatres using IMAX theatre systems in Hong Kong, Macau and Taiwan represents of all IMAX theatres in the PRC, Hong Kong, Macau and Taiwan |
| “IMAX Shanghai Multimedia” | IMAX (Shanghai) Multimedia Technology Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC on 31 May 2011 and a direct wholly-owned subsidiary of IMAX Hong Kong |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |
| “Listing Date” | 8 October 2015 |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |
| “Long Term Incentive Plan” or “LTIP” | the long term incentive plan adopted by the Company in October 2012 |
| “Macau” | Macau Special Administrative Region of the PRC |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| “PRC” or “China” | the People’s Republic of China, but for the purposes of this document only, except where the context requires, references in this Annual Report to PRC or China exclude Hong Kong, Macau and Taiwan |
| “Prospectus” | the prospectus of the Company dated 24 September 2015 |

Definitions (Continued)

| | |
|--------------------------|---|
| “RSU Scheme” | the restricted share unit scheme conditionally adopted pursuant to a resolution of our sole shareholder dated 21 September 2015, the principal terms of which are summarised in the section headed “Report of the Directors — Sub-plan: The Restricted Share Unit Scheme” in this Annual Report |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time |
| “Share Option Scheme” | the share option scheme conditionally adopted pursuant to a resolution of our sole shareholder dated 21 September 2015, the principal terms of which are summarised in the section headed “Report of the Directors — Sub-plan: Share Option Scheme” in this Annual Report |
| “Shareholder(s)” | holder(s) of Shares |
| “Share(s)” | Ordinary share(s) with a nominal value of US\$0.0001 each in the share capital of the Company and a “ Share ” means any of them |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “TCL-IMAX Entertainment” | TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited |
| “Tier 1 Cities” | Beijing, Shanghai, Guangzhou and Shenzhen |
| “Tier 2 Cities” | Tianjin, Hangzhou, Suzhou, Chengdu, Ningbo, Qingdao, Nanjing, Wuhan, Wuxi, Changsha, Chongqing, Zhengzhou, Shenyang, Xi’an, Jinan |

Definitions (Continued)

| | |
|---------------------------|---|
| “Tier 3 Cities” | Shijiazhuang, Kunming, Dalian, Changchun, Hohhot, Taiyuan, Hefei, Fuzhou, Xiamen, Ha’erbin, Nanchang, Shantou, Zhuhai, Haikou, Sanya, Nanning, Guiyang, Lasa, Lanzhou, Xining, Yinchuan, Urumchi, Baoding, Jinhua, Yantai, Taizhou, Changzhou, Nantong, Shaoxing, Jiaxing, Quanzhou, Cangzhou, Zibo, Handan, Jining, Xuzhou, Langfang, Ordos, Zhongshan, Dongying, Yulin, Dezhou, Binzhou, Huzhou, Luoyang, Weihai, Xingtai, Dongguan, Foshan, Wenzhou, Weifang, Linyi, Tangshan and Baotou |
| “Tier 4 Cities” | all cities in the PRC at or above the prefecture-level other than Tier 1, Tier 2 and Tier 3 Cities |
| “U.S.” or “United States” | the United States of America, its territories and possessions, any state of the United States and the District of Columbia |
| “USD” or “US\$” or “\$” | U.S. dollars, the lawful currency of the United States of America |

Glossary

This glossary contains explanations of certain terms used in this Annual Report in connection with the Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

| | |
|------------------------------------|--|
| “2D” | two-dimensional |
| “3D” | three-dimensional |
| “backlog” | our backlog comprises the aggregate number of commitments for IMAX theatre installations pursuant to contracts we have entered into with exhibitors |
| “box office” | the gross aggregate proceeds from ticket sales received by the relevant exhibitor(s) in the relevant market(s) for the relevant type(s) of film. For example, the Greater China box office is the aggregate proceeds from ticket sales received by all exhibitors in Greater China, and the Greater China IMAX box office is the aggregate proceeds from ticket sales received by all the exhibitors in Greater China in respect of IMAX films and IMAX Original Films. We also use the concept of box office in our revenue sharing arrangements, where it refers to the aggregate proceeds from ticket sales received by exhibitors in respect of IMAX films with which we have entered into a revenue sharing arrangement |
| “box office revenue” | the portion of box office that is due to be paid to the Group under revenue sharing arrangements in our theatre systems business and/or arrangements with IMAX Corporation and studios in our films business, as applicable |
| “Chinese language films” | a motion picture approved for theatrical release in the PRC which has been produced by a PRC producer or jointly produced by a PRC producer and a foreign producer, and which meets the requirements of the relevant laws and regulations of the PRC |
| “commercial theatre” | a theatre owned or operated by an exhibitor, excluding theatres associated with museums, zoos, aquaria and other destination entertainment sites which do not play commercial films |
| “distributor” | an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres |
| “exhibitor” | exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules |
| “full revenue sharing arrangement” | an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for a portion of that exhibitor’s box office generated from IMAX films over the term of the arrangement, and no, or a relatively small, upfront payment |

Glossary (Continued)

| | |
|--|---|
| “Greater China DMR Film” | a conventional Chinese language film produced by a third party which is converted into IMAX format and released to IMAX theatres in Greater China pursuant to a DMR production services agreement entered into between IMAX Shanghai Multimedia or IMAX Hong Kong and a distributor in their respective territories |
| “Greater China Original Film” | any Chinese language film invested in, produced or coproduced by IMAX Shanghai Multimedia or IMAX Hong Kong and released to IMAX theatres in Greater China, which may or may not be in IMAX format |
| “Hollywood films” | an imported motion picture for theatrical release in the PRC where the importation and release of such motion picture has been permitted in accordance with the annual quota imposed by the PRC government |
| “Hollywood studio” | a studio producing Hollywood films |
| “hybrid revenue sharing arrangement” | an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for an upfront fee that is typically half of the payment under a sales arrangement and a portion of that exhibitor’s box office generated from IMAX films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement |
| “IMAX digital xenon projection system” | the xenon-based digital projection system, developed and rolled out by IMAX Corporation in 2008 |
| “IMAX DMR” | the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX format film |
| “IMAX film” | a film converted from a conventional film using IMAX DMR technology |
| “IMAX laser-based digital projection system” | the dual 4k laser-based digital projection system, developed and rolled out by IMAX Corporation at the end of 2014 |
| “IMAX Original Film” | any IMAX format film invested in, produced or co-produced by IMAX Corporation and released to IMAX theatres, and/or for which IMAX Corporation owns and/or controls its theatrical distribution rights |
| “IMAX theatre” | any movie theatre in which an IMAX screen is installed |
| “multiplex” | a movie theatre with more than one screen for the exhibition of films |

Glossary (Continued)

| | |
|-------------------------------|---|
| “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 |

IMAX[®]