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To: the Independent Board Committee of IMAX China Holding, Inc.

Dear Sirs,

(1) PROPOSED PRIVATISATION OF IMAX CHINA HOLDING, INC. BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES ACT AND (2) PROPOSED WITHDRAWAL OF LISTING OF IMAX CHINA HOLDING, INC.

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Share Incentive Proposal. Details of the Proposal, the Scheme and the Share Incentive Proposal are contained in the Scheme Document dated 15 September 2023, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 13 July 2023, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Offer Price of HK$10.00 in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. As at the Latest Practicable Date, there were 6,184,783 outstanding Share Incentives, comprising 1,518,800 LTIP Options, 1,295,392 Share Options, 2,482,605 RSUs and 887,986 PSUs. The Offeror is making appropriate offers to the Share Incentive Holders in accordance with Rule 13 of the Takeovers Code.

The Independent Board Committee, comprising Ms. Yue-Sai KAN, Mr. John DAVISON, Ms. Dawn TAUBIN and Mr. Peter LOEHR (being all of the independent non-executive Directors), has been established by the Board to make recommendations to the Disinterested Shareholders and the Share Incentive Holders (as applicable) as to: (i) whether the terms of the Proposal, the Scheme and the Share Incentive Proposal are, or are not, fair and reasonable; (ii) whether to vote in favour of the Scheme at the Court Meeting and the resolutions in connection with the implementation of the Proposal at the EGM; and (iii) acceptance by the Share Incentive Holders of the Share Incentive Proposal. As Mr. Richard GELFOND (being a non-executive Director and the chairman of the Board) is also the Chief Executive Officer of the Offeror and Mr. Robert LISTER (being a non-executive Director) is also the Chief Legal Officer and Senior Executive Vice President of the Offeror, Mr. Richard GELFOND and Mr. Robert LISTER are regarded as being interested in the Proposal and do not form part of the Independent Board Committee. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise them as regards their recommendation on the Proposal, the Scheme and the Share Incentive Proposal.

We are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Scheme and the Share Incentive Proposal. There has been no business relationship between the Company, its associated companies or the Offeror and us in the past two years. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them. We are not aware of any relationship or interest between us and the Company, the Offeror or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee in respect of the Proposal, the Scheme and the Share Incentive Proposal.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group ("**Management**"), which we have assumed to be true, accurate and complete in all material aspects at the Latest Practicable Date. We have also assumed that all representations contained or referred to in the Scheme Document were true, accurate and complete at the time they were made and remain so at the Latest Practicable Date. The Disinterested Shareholders and the Share Incentive Holders will be informed of any material change in this regard as soon as possible up to the Effective Date.

We have reviewed, among other things, the Announcement, the Scheme Document, the annual reports of the Company for the years ended 31 December 2020, 2021 and 2022 ("**2022 Annual Report**") and the interim report of the Company for the six months ended 30 June 2023 ("**2023 Interim Report**"). We have sought and received confirmation from the Directors that no material fact has been omitted from the information supplied and opinions expressed to us by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material fact has been omitted or withheld. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification on the information supplied.

II. TERMS AND CONDITIONS OF THE PROPOSAL, THE SCHEME AND THE SHARE INCENTIVE PROPOSAL

1. The Scheme

The Proposal comprises the proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Offer Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares from the Stock Exchange.

Subject to the Scheme becoming effective, all of the Scheme Shares will be cancelled in exchange for HK$10.00 in cash for each Scheme Share.

The Offeror will not increase the Offer Price and does not reserve the right to do so.

2. The Share Incentive Proposal

(a) LTIP Option Offer

As at the Latest Practicable Date, there are 1,518,800 LTIP Options granted under the LTIP (all of which had vested and were exercisable), each giving the LTIP Option Holder the right to subscribe for one new Share per LTIP Option (if the Board determines, in its absolute discretion, to settle with Shares). The exercise price of the LTIP Options is US$1.1852 per LTIP Option (approximately HK$9.1853 per LTIP Option).

Under the LTIP Option Offer, the Offeror is offering the LTIP Option Holder a "see-through" price of HK$0.8147 per LTIP Option (being the Offer Price minus the exercise price per LTIP Option) for the cancellation of each LTIP Option. The LTIP Option Offer is conditional upon the Scheme becoming effective.

(b) Share Option Offer

As at the Latest Practicable Date, there are 1,295,392 Share Options granted under the Share Option Scheme (all of which had vested and were exercisable), each giving the Share Option Holders the right to subscribe for one new Share per Share Option (if the Board determines, in its absolute discretion, to settle with Shares). The relevant exercise price applicable to each Share Option ranges from HK$18.24 to HK$36.94 per Share Option.

Under the Share Option Offer, the Offeror is offering the Share Option Holders a nominal value of US$0.0001 per Share Option (equivalent to HK$0.0008 per Share Option) for the cancellation of each Share Option, as the exercise price of each Share Option exceeds the Offer Price and the "see-through" price is negative. The Share Option Offer is conditional upon the Scheme becoming effective.

(c) Share Award Offer

As at the Latest Practicable Date, there are 2,482,605 RSUs granted under the RSU Scheme and 887,986 PSUs granted under the PSU Scheme which have not yet vested, each giving the RSU Holders and the PSU Holders (as the case may be) a contingent right upon the vesting of such RSUs or PSUs to receive one new Share per RSU or PSU for no consideration (if the Board determines, in its absolute discretion, to settle with Shares).

Under the rules of the RSU Scheme and the PSU Scheme, there is no automatic acceleration or cancellation of unvested RSUs and PSUs triggered by a takeover or scheme of arrangement of the Company. The unvested RSUs and PSUs will therefore not be accelerated for vesting as a result of the Proposal.

The Offeror is implementing the arrangements set out in detail in the sub-section headed "4. Share Incentive Proposal – Share Award Offer" in the Explanatory Memorandum contained in the Scheme Document, to the effect that (i) the RSU Holders will receive Offeror RSUs for the cancellation of all of the RSUs held by them; and (ii) the PSU Holders will receive Offeror PSUs for the cancellation of all of the PSUs held by them, with the vesting of such Offeror RSUs and Offeror PSUs being consistent with the original vesting schedules and the original vesting conditions applicable to the corresponding RSUs and PSUs. The number of Offeror RSUs to be granted to each RSU Holder in respect of a particular RSU Tranche held by such RSU Holder shall be determined based on the number of unvested RSUs multiplied by the Offer Price and divided by closing price per share of the Offeror on the relevant date of grant of the RSUs. The same principle will be applied in determining the number of Offeror PSUs to be granted to each PSU Holder.

The Share Award Offer is conditional on the Scheme becoming effective.

Any RSU Holder or PSU Holder who does not accept the Share Award Offer will not receive any Offeror RSUs or Offeror PSUs (as the case may be) under the Share Award Offer in respect of his/her outstanding RSUs and/or PSUs as at the Record Date. The Board will then exercise its discretion to cancel such RSUs and PSUs for nil consideration in accordance with the terms and conditions of the RSU Scheme and PSU Scheme.

Further details of the terms of the Proposal, the Scheme and the Share Incentive Proposal are set out in the letter from the Board and the Explanatory Statement contained in the Scheme Document.

3. Conditions of the Proposal and the Scheme

The Proposal and the Scheme will only become effective and binding on the Company and all of the Scheme Shareholders if, among other things, the following Conditions are fulfilled:

(a) the approval of the Scheme (by way of poll) at the Court Meeting by the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders entitled to vote at the Court Meeting, present and voting either in person or by proxy at the Court Meeting (with IMAX Barbados having provided an undertaking to the Grand Court not to attend and vote at the Court Meeting), provided that:

  (i) the Scheme is approved (by way of a poll) by not less than 75% of the votes attaching to the Disinterested Shares cast by the Disinterested Shareholders, present and voting either in person or by proxy at the Court Meeting; and

  (ii) the number of votes cast (by way of a poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Disinterested Shares;

(b) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to (i) approve and give effect to any reduction of the issued share capital of the Company on the Effective Date by cancelling the Scheme Shares; and (ii) contemporaneously issue to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such new Shares; and

(c) the sanction of the Scheme (with or without modifications) by the Grand Court and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration.

The Conditions in paragraphs (a) to (c) cannot be waived. The Proposal and the Scheme are subject to other standard Conditions as set out in the Explanatory Statement contained in the Scheme Document.

As at the Latest Practicable Date, none of the above Conditions has been fulfilled or waived. All of the Conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse.

Further details of the Conditions are set out in the Explanatory Statement contained in the Scheme Document.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, the Scheme and the Share Incentive Proposal, we have taken into consideration the following principal factors and reasons:

1. Background and information of the Company

(a) Shareholding and option structures of the Company

As at the Latest Practicable Date, the Company had 339,593,143 Shares in issue. The Offeror and the Offeror Concert Parties held 243,262,600 Shares, representing approximately 71.63% of the issued share capital of the Company. The Offeror is a company incorporated in Canada and is listed on the New York Stock Exchange. The Disinterested Shareholders held the remaining balance of 96,330,543 Shares, representing approximately 28.37% of the issued share capital of the Company. This shareholding level of 28.37% is slightly above the minimum 25% free float requirement under Stock Exchange regulations and has limited both the trading liquidity of the Shares and the Company's programme of buying back Shares in the market. During the years from 2018 to 2022, the Company repurchased approximately 21.1 million Shares, which compares with the approximately 96.3 million Shares now held by the Disinterested Shareholders.

The Share Incentive Holders held 6,184,783 outstanding Share Incentives, comprising 1,518,800 LTIP Options, 1,295,392 Share Options, 2,482,605 RSUs, and 887,986 PSUs. Save for the above, as at the Latest Practicable Date, there were no outstanding shares, options, warrants, convertible securities or other relevant securities issued by the Company.

(b) Principal businesses of the Group

The Company is a leading entertainment technology company, the exclusive licensee of the IMAX brand in the theatre network, sales and maintenance business, and the sole commercial platform for the release of IMAX format films in Greater China. The Group is principally engaged in the entertainment industry specialising in digital and film-based motion picture technologies.

The Group derives a majority of its revenue from two primary sources, namely:

(i) content solutions business ("**Content Solutions**") which principally involves content enhancement, including the digital remastering of films and other content into IMAX formats for distribution to the IMAX network ("**IMAX DMR Films**").

For the six months ended 30 June 2023 and 2022, Content Solutions accounted for approximately 31.3% and 19.9% of the Group's revenue, respectively; and

(ii) technology products and services business ("**Technology Products and Services**") which principally involves the sales, lease, and maintenance of IMAX systems. For the six months ended 30 June 2023 and 2022, Technology Products and Services accounted for approximately 68.1% and 79.8% of the Group's revenue, respectively. This segment includes the following activities for the percentage of the full year of 2022 and 2021 revenues as shown in brackets:

(1) sale or lease of IMAX systems ("**IMAX Systems**") (27.9%/36.6%);

(2) a portion of exhibitor's box office generated from IMAX films over the term of the arrangement and fixed upfront fee generated from hybrid revenue sharing arrangements ("**Revenue Sharing Arrangements**") (15.6%/20.2%);

(3) the maintenance of IMAX systems ("**IMAX Maintenance**") (34.8%/22.7%); and

(4) certain ancillary theatre business activities such as after-market sales of IMAX system parts and 3D glasses ("**Other Theatre Business**") (1.2%/0.8%).

Revenue from these two primary sources can be further described as follows:

(i) IMAX DMR Films

Under IMAX DMR Films, the Group generates revenue from a certain percentage of IMAX box office received by their studio partners for the conversion and release of Hollywood and Chinese language films to the IMAX theatre network. The following table sets out the number of films the Group released in the IMAX format in the first half of 2023 and 2022 and the full years of 2022, 2021, 2020 and 2019 in Greater China:

	For the six months ended 30 June		**For the year ended 31 December**			
	2023	**2022**	**2022**	**2021**	**2020**	**2019**
Hollywood films	14	8	10	13	16	30
Hollywood films (Hong Kong, Taiwan and Macau only)	5	8	14	16	8	7
Chinese language films	10	4	13	21	9	14
Other films	3	–	2	–	–	–
Other films (Hong Kong, Taiwan and Macau only)	1	–	6	–	–	–
Total IMAX films released	33	20	45	50	33	51

(ii) IMAX Systems

IMAX Systems consist of the design, manufacture and installation of IMAX theatre projection system equipment under sales or sales-type lease arrangements for upfront and ongoing fees, which can include a fixed minimum amount per annum and contingent rent in excess of the minimum payments. The upfront fees vary depending on the system configuration and location of the theatre. Any upfront fees are paid to the Group in instalments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments and the estimated contingent rent on sales arrangement, are recognised as revenue at the time of installation and exhibitor acceptance of the respective IMAX theatre system.

(iii) Revenue Sharing Arrangements

The Group has two types – full revenue sharing arrangements and hybrid revenue sharing arrangements.

Under full revenue sharing arrangements, the Group 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 Group receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theatre. The Group also receives a fixed upfront fee. Contingent rent revenue from revenue sharing arrangements is recognised when reported by its exhibitor partners.

(iv) IMAX Maintenance

Under IMAX Maintenance, the Group generates revenue from the provision of ongoing maintenance services. The revenue recognised is primarily comprised an annual maintenance fee payable by exhibitor partners under all sales and sales-type lease arrangements and revenue sharing arrangements.

(v) Other Theatre Business

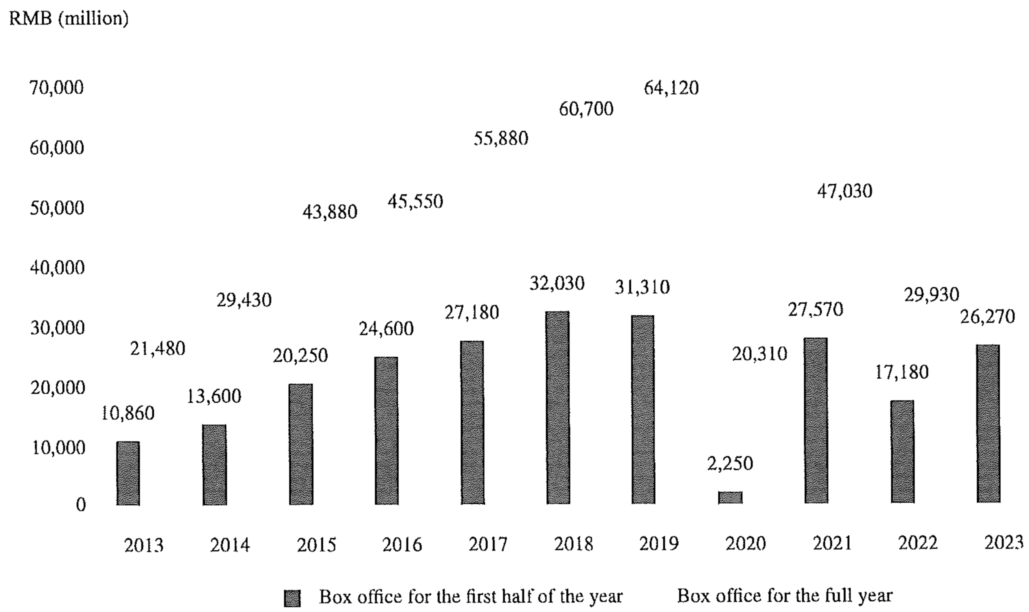
Under Other Theatre Business, the Group generates revenue from the aftermarket sales of 3D glasses, screen sheets, parts and other items.

2. Industry overview

As all revenue earned by the Group is generated from the activities of IMAX theatres operating in Greater China and over 95% of the IMAX theatres in operation are located in the PRC, we have reviewed the trends and outlook of the film industry of the PRC.

Details of the box office revenue in the PRC are set out in the Chart 1 below.

Chart 1: Box office revenue in the PRC



Sources: Top Consulting[1] and China Movie Database[2]

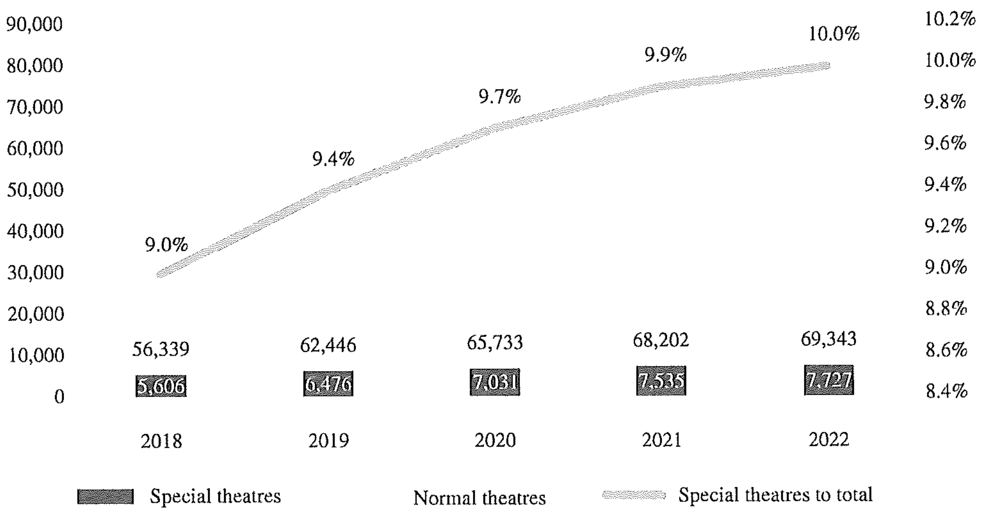
The annual box office revenue in the PRC grew from approximately RMB21,480 million in 2013 to RMB64,120 million in 2019 (pre-COVID-19 period), representing a compound annual growth rate ("**CAGR**") of approximately 20.0% during the period. However, due to the outbreak of COVID-19 pandemic and the implementation of relevant control measures, box office revenue in 2020 decreased dramatically by approximately 68.3% to approximately RMB20,310 million, a level similar to 2013. After the partial relaxation of the COVID-19-related restrictive measures, box office revenue in 2021 rebounded by approximately 131.6% to approximately RMB47,030 million, only to slump again in 2022 by approximately 36.4% to approximately RMB29,930 million principally attributable to rolling closure of theatres throughout the year due to the resurgence of the COVID-19 pandemic and the reduced supply of Hollywood releases in the PRC. PRC box office revenue in the first half of 2023 was approximately RMB26,270 million, representing an increase of approximately 52.9% as compared to the corresponding period in the prior year, and slightly lower than the level for the corresponding period in 2017 and 2021, ranking fifth in the period 2013-2023.

1 Top Consulting, or Beijing Top Century Culture Consulting Co. LTD (北京拓普世紀資訊諮詢有限公司), is a Beijing-based film consulting company, providing data information, industry research, market research, business consulting, and other services to customers in the PRC film industry.

2 China Movie Database (中國電影數據信息網) is a PRC box office data platform operated by National Commission for the Management of Special Funds for the Development of Film Industry (國家電影事業發展專項資金管理委員會辦公室).

IMAX is a type of special theatre operating in the PRC and includes special designed theatre systems, larger screens, special theatre geometry, and advanced projectors and sound systems. It also includes film conversion and capture technologies, all of which offer moviegoers a different and more immersive film viewing experience compared to a conventional theatre and film. Other offerings that position themselves as non-conventional, special theatres operating in the PRC market include Dolby cinema and certain others. Set out below in Chart 2 are the numbers of special and normal theatres in the PRC for the period from 2018 to 2022.

Chart 2: Number of special and normal theatres in the PRC



Source: Top Consulting

As shown in Chart 2 above, the number of both special and normal theatres grew during 2018 to 2022. The percentage of special theatres to the total number of theatres also edged up, from approximately 9% to 10%, with special theatres increasing at a faster rate than normal theatres.

In macro-economic terms, several commentators, including investment banks and credit rating agencies, expected the projected gross domestic product growth in 2023 to be between 4.5% and 5.7%, down from 4.9% to 6.3% as previously forecast. The downward adjustments were mainly due to (i) a lack of tangible stimulus measures; (ii) liquidity concerns in the property sector; and (iii) retail sales rising only by 2.5% in July from a year ago, below expectations for a 4.5% increase.

3. Financial performance of the Group

Set out in the table below is a summary of the financial results of the Group for the six months ended 30 June 2023 ("**6M2023**") and 2022 ("**6M2022**") and the years ended 31 December 2022 ("**FY2022**"), 2021 ("**FY2021**"), 2020 ("**FY2020**") and 2019 ("**FY2019**") (collectively, "**Review Period**").

	For the six months ended 30 June		For the year ended 31 December			
	2023	**2022**	**2022**	**2021**	**2020**	**2019**
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*	*(Audited)*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Revenue	45,342	32,713	73,330	112,801	52,331	124,294
Cost of sales	(16,624)	(14,088)	(33,633)	(44,613)	(32,984)	(47,647)
Gross profit	28,718	18,625	39,697	68,188	19,347	76,647
Selling, general and administrative expenses	(8,979)	(9,545)	(15,530)	(16,820)	(14,381)	(16,465)
Other operating expenses	(2,503)	(1,873)	(3,968)	(6,062)	(3,900)	(6,534)
(Provisions)/Reversals of net impairment losses on financial assets	(807)	(613)	(1,319)	3,997	(10,892)	(483)
Other losses	–	(4,470)	(4,470)	–	–	–
Operating profit/(loss)	16,429	2,124	14,410	49,303	(9,826)	53,165
Interest income	726	728	1,040	1,643	1,330	1,771
Interest expense	(282)	(48)	(169)	(458)	(108)	(93)
Profit/(Loss) before income tax	16,873	2,804	15,281	50,488	(8,604)	54,843
Income tax expense	(2,997)	(2,038)	(4,523)	(12,271)	(18,135)	(11,950)
Profit/(Loss) for the period/year attributable to the Shareholders	13,876	766	10,758	38,217	(26,739)	42,893
Gross profit margin	*63.3%*	*56.9%*	*54.1%*	*60.4%*	*37.0%*	*61.7%*
Net profit/(loss) margin	*30.6%*	*2.3%*	*14.7%*	*33.9%*	*(51.1)%*	*34.5%*
Earnings/(Loss) per Share (basic and diluted) (US$)	*0.04*	*0.00*	*0.03*	*0.11*	*(0.08)*	*0.12*
Dividend per Share (US$)	*Nil*	*0.001*	*0.016*	*0.055*	*0.040*	*0.040*
– Final	*Not applicable*	*Not applicable*	*0.015*	*0.027*	*0.020*	*0.020*
– Interim	*Nil*	*0.001*	*0.001*	*0.028*	*0.020*	*0.020*

(i) ***Revenue***

Revenue generated by the Group was all derived from Greater China, namely the PRC, Hong Kong, Taiwan and Macau. The Group's revenue has recently shown considerable volatility due primarily to the COVID-19 pandemic. Set out below is the summary of the Group's segmental revenue for FY2022, FY2021, FY2020 and FY2019.

	For the year ended 31 December							
	2022		**2021**		**2020**		**2019**	
	US$'000	*% to total revenue*	*US$'000*	*% to total revenue*	*US$'000*	*% to total revenue*	*US$'000*	*% to total revenue*
IMAX Technology Network *(Note 1)*								
IMAX DMR Films	14,908	*20.3%*	21,750	*19.3%*	7,721	*14.7%*	28,128	*22.6%*
Revenue Sharing Arrangements – contingent rent	10,399	*14.2%*	17,623	*15.6%*	7,461	*14.3%*	24,791	*19.9%*
	25,307	*34.5%*	39,373	*34.9%*	15,182	*29.0%*	52,919	*42.5%*
IMAX Technology Sales and Maintenance *(Note 2)*								
IMAX Systems	20,479	*27.9%*	41,413	*36.6%*	23,953	*45.8%*	41,543	*33.4%*
Revenue Sharing Arrangements – upfront fees	1,013	*1.4%*	5,150	*4.6%*	1,285	*2.5%*	7,162	*5.8%*
IMAX Maintenance	25,539	*34.8%*	25,581	*22.7%*	11,156	*21.3%*	21,387	*17.2%*
Other Theatre Business	855	*1.2%*	858	*0.8%*	543	*1.0%*	941	*0.8%*
	47,886	*65.3%*	73,002	*64.7%*	36,937	*70.6%*	71,033	*57.2%*
Others	137	*0.2%*	426	*0.4%*	212	*0.4%*	342	*0.3%*
Total revenue	73,330	*100.0%*	112,801	*100.0%*	52,331	*100.0%*	124,294	*100.0%*

Notes:

1. IMAX technology network ("**IMAX Technology Network**") earns revenue based on contingent box office receipts and includes the IMAX DMR Films and contingent rent from the Revenue Sharing Arrangements.

2. IMAX technology sales and maintenance ("**IMAX Technology Sales and Maintenance**") includes results from IMAX Systems, IMAX Maintenance and Other Theatre Business, as well as upfront fees from the Revenue Sharing Arrangements.

FY2020

The revenue of the Group for the year ended 31 December 2020 was approximately US$52.3 million, representing a drop of approximately US$72.0 million or approximately 57.9% as compared with approximately US$124.3 million for the year ended 31 December 2019. The drop was primarily driven by (i) a decrease in IMAX Technology Network revenue of approximately US$37.7 million, primarily due to the decrease in box office revenue as a result of the outbreak of the COVID-19 pandemic; and (ii) a decrease in IMAX Technology Sales and Maintenance revenue of approximately US$34.1 million, mainly attributable to 12 fewer sales and sales-type lease arrangements due to a construction slowdown, 13 fewer hybrid revenue sharing installations and suspension of regular maintenance services during the theatre closure period as a result of the outbreak of COVID-19 pandemic.

FY2021

The revenue of the Group rebounded by approximately US$60.5 million or approximately 115.7% to approximately US$112.8 million for the year ended 31 December 2021. The rebound was predominantly driven by (i) an increase in IMAX Technology Network revenue of approximately US$24.2 million, primarily due to the increase in the box office revenue generated by IMAX films after theatre re-openings; and (ii) an increase in IMAX Technology Sales and Maintenance revenue of approximately US$36.1 million, mainly attributable to 13 more sales and sales-type lease arrangements, 9 new hybrid revenue sharing installations and the resumption of regular maintenance services due to further normalisation of business activities previously impacted by the COVID-19 pandemic.

FY2022

The revenue of the Group declined by approximately US$39.5 million or approximately 35.0% to approximately US$73.3 million for the year ended 31 December 2022. The decline was mainly driven by (i) a decrease in IMAX Technology Network revenue of approximately US$14.1 million, principally attributable to a decrease in box office revenue as a result of the COVID-19 theatre temporary closures in some major cities in the PRC, weaker performance during the Chinese New Year and National Holiday periods and certain top IMAX Hollywood films globally not securing release dates in the PRC; and (ii) a decrease in IMAX Technology Sales and Maintenance revenue of approximately US$25.1 million attributable to 18 fewer sales and sales-type lease arrangements due to a slowdown in new theatre development, driven by the significant reduction of industry box office and revenues impacted by local COVID-19 control policies and fewer Hollywood films.

<u>*6M2023*</u>

Set out below is the summary of the Group's segmental revenue for 6M2023 and 6M2022.

	For the six months ended 30 June			
	2023		**2022**	
	US$'000	*% to total revenue*	*US$'000*	*% to total revenue*
Content Solutions				
Film remastering *(Note 1)*	14,178	*31.3%*	6,519	*19.9%*
	14,178	*31.3%*	6,519	*19.9%*
Technology Products and Services				
System sales *(Note 2)*	7,030	*15.5%*	4,907	*15.0%*
System rentals *(Note 3)*	11,207	*24.7%*	5,166	*15.8%*
Maintenance *(Note 4)*	11,040	*24.3%*	14,099	*43.1%*
Finance income *(Note 5)*	1,619	*3.6%*	1,940	*5.9%*
	30,896	*68.1%*	26,112	*79.8%*
Others	268	*0.6%*	82	*0.3%*
Total revenue	45,342	*100.0%*	32,713	*100.0%*

Notes:

1. Film remastering refers to IMAX DMR Films.

2. System sales refers to (a) upfront fees under Revenue Sharing Arrangements; (b) IMAX Systems; and (c) Other Theatre Business, excluding finance income as described in note 5 below.

3. System rentals refers to contingent rent under Revenue Sharing Arrangements.

4. Maintenance refers to IMAX Maintenance.

5. Finance income refers to the recognition of difference between initial payment received and the present value of fixed minimum ongoing payments over the specified arrangement period.

For the six months ended 30 June 2023, the Group's revenue amounted to approximately US$45.3 million, representing an increase of approximately 38.5% as compared to the corresponding period in 2022 of approximately US$32.7 million. The improvement in the revenue was primarily driven by (i) an increase in the Content Solutions revenue of approximately US$7.7 million, as a result of the increase in box office revenue arising from the reopening of theatres in the PRC after COVID-19 controls being lifted and a larger number of films being released; and (ii) an increase in the Technology Products and Services revenue of approximately US$4.8 million, primarily due to 3 more sales and sales-type lease arrangements and increased box office.

*(ii) **Gross profit and gross profit margin***

FY2020

The gross profit of the Group for the year ended 31 December 2020 was approximately US$19.3 million, representing a decrease of approximately US$57.3 million or approximately 74.8% as compared with the year ended 31 December 2019. The decrease was largely in line with the drop in revenue during the year. The gross profit margin dropped to approximately 37.0% for the year ended 31 December 2020 from approximately 61.7% for the year ended 31 December 2019. The decrease in gross profit margin was mainly due to the net effect of (i) decrease in overall box office revenue due to COVID-19 pandemic; (ii) increased depreciation costs associated with continued growth in the IMAX theatre network under the Revenue Sharing Arrangements; (iii) lowering of fixed upfront fee in exchange for higher ongoing fees of contingent rent business; and (iv) reduced revenue and normalised fixed labour/overhead components of the business during the year.

FY2021

The gross profit of the Group for the year ended 31 December 2021 rebounded to approximately US$68.2 million, representing an increase of approximately US$48.9 million or approximately 253.4% from approximately US$19.3 million for the year ended 31 December 2020. The gross profit margin rebounded to approximately 60.4% for the year ended 31 December 2021 as compared with approximately 37.0% for the year ended 31 December 2020. The higher gross profit and gross profit margin were primarily due to, among others, (i) an increase in overall box office revenue in 2021 due to reopening of theatres in the PRC; (ii) a decrease in depreciation costs associated with additional relief period extension on depreciation; (iii) an installation of 13 more systems with higher margin; and (iv) a resumption of regular maintenance services that were generally suspended due to the COVID-19 pandemic in prior year.

FY2022

The gross profit of the Group for the year ended 31 December 2022 declined to approximately US$39.7 million, representing a decrease of approximately US$28.5 million or approximately 41.8% from approximately US$68.2 million for the year ended 31 December 2021. The decrease in gross profit was mainly attributable to (i) decrease in overall box office revenue in 2022; (ii) increased depreciation costs associated with a larger full revenue sharing network; and (iii) the installation of 18 fewer systems and seven fewer installations under hybrid revenue sharing arrangements. The gross profit margin declined to approximately 54.1% for the year ended 31 December 2022 as compared with approximately 60.4% for the year ended 31 December 2021 for the reasons as mentioned above.

6M2023

The gross profit of the Group for the six months ended 30 June 2023 was approximately US$28.7 million, representing an increase of approximately US$10.1 million or approximately 54.3% from approximately US$18.6 million for the corresponding period in 2022. The increase in gross profit was mainly due to (i) the increase in overall box office revenue as a result of the reopening of theatres in PRC after COVID-19 control measures being lifted; and (ii) 3 more IMAX theatre system installations under sales and sales-type lease arrangements and one more hybrid revenue sharing arrangement. As a result of the above, and a high operating leverage inherent to the Group's Content Solutions and more local language films released with lower production costs and higher margins, the gross profit margin was enhanced to approximately 63.3% as compared to approximately 56.9% for the corresponding period in 2022.

(iii) Selling, general and administrative expenses ("SG&A Expenses")

FY2020

The SG&A Expenses for the year ended 31 December 2020 was approximately US$14.4 million, representing a year-on-year decrease of approximately US$2.1 million or approximately 12.7% as compared to the year ended 31 December 2019. The decrease was mainly attributable to the decrease in advertising and marketing expenses due to the temporarily closure of theatres in the PRC and disruption of normal marketing operations.

FY2021

The SG&A Expenses for the year ended 31 December 2021 increased to approximately US$16.8 million, representing an increase of approximately US$2.4 million or approximately 16.7% compared to the prior year. The increase was mainly due to the net effects of (i) the increase in employee salaries and benefits and share-based compensation expenses as a result of increased salary and bonus; and (ii) the increase in advertising and marketing expenses due to the resumption of more normalised marketing operations.

FY2022

The SG&A Expenses for the year ended 31 December 2022 decreased to approximately US$15.5 million, representing a decrease of approximately US$1.3 million or approximately 7.7%. The decrease was mainly due to the net effects of (i) the decrease in share-based compensation expenses; and (ii) the decrease in employee salaries and benefits, partially offset by foreign exchange loss mainly related to RMB cash held offshore China.

6M2023

The SG&A Expenses decreased slightly from approximately US$9.5 million for the six months ended 30 June 2022 to approximately US$9.0 million for the six months ended 30 June 2023, which was driven mainly by the lower foreign exchange loss.

(iv) Other operating expenses

Other operating expenses primarily include the annual license fees payable to IMAX Corporation (i.e., the Offeror) in respect of the licensing of trademark and technology, charged at an aggregate of 5% of the Group's revenue. The fluctuations in the other operating expenses under review were largely due to the changes in the Group's revenue.

(v) (Provisions)/Reversals of net impairment losses on financial assets

The provision of net impairment losses on financial assets increased from approximately US$0.5 million for the year ended 31 December 2019 to approximately US$10.9 million for the year ended 31 December 2020, representing an increase of approximately US$10.4 million or approximately 20.8 times. The increase was primarily due to the provision for current expected credit losses, principally reflecting a reduction in the credit quality of its trade receivables, financing receivables and variable consideration receivable, which is primarily related to the outbreak of the COVID-19 pandemic.

The net impairment losses on financial assets reversed for the year ended 31 December 2021 were approximately US$4.0 million, which was due to the subsequent cash collection on trade receivables, financing receivables and variable consideration receivables being better than expectation.

(vi) Other losses

Other losses for the six months ended 30 June 2022 and year ended 31 December 2022 of approximately US$4.5 million represented the net fair value losses on financial assets at fair value through profit or loss, which was recognised for a film investment.

(vii) Profit/(Loss) for the period/year attributable to the Shareholders and dividend policy

FY2020

The net loss of approximately US$26.7 million for the year ended 31 December 2020 was mainly due to the decrease in revenue and increase in provision of net impairment losses on financial assets as a result of the outbreak of the COVID-19 pandemic. Income tax expense remained high, mainly due to the recognition of withholding taxes associated with historical profits of a PRC subsidiary, even though the Group recorded a loss before income tax.

FY2021

The return to net profit for the year ended 31 December 2021 was mainly due to the increase in revenue, reversal of net impairment losses on financial assets as a result of better than expected collection on trade receivables, financing receivables and variable consideration receivables and the decrease in income tax expenses as a result of reduction in provisional tax for applicable withholding taxes associated with historical earnings of a PRC subsidiary.

FY2022

The profit for the year ended 31 December 2022 declined by approximately 71.7% to approximately US$10.8 million. The decline in profit was chiefly due to the decreases in revenue and gross profit, increase in provision of net impairment losses on financial assets as a result of the resurgence of the COVID-19 pandemic in the PRC, and fair value losses recognised.

6M2023

The profit for the six months ended 30 June 2023 increased by approximately US$13.1 million or approximately 16.4 times to approximately US$13.9 million from approximately US$0.8 million for the corresponding period in 2022. The significant increase was mainly due to the combined effects of: (i) the increase in revenue of approximately US$12.6 million and gross profit of approximately US$10.1 million due to relaxation of COVID-19 control measures in the PRC; and (ii) the absence of fair value losses recognised for the corresponding period in prior year of approximately US$4.5 million.

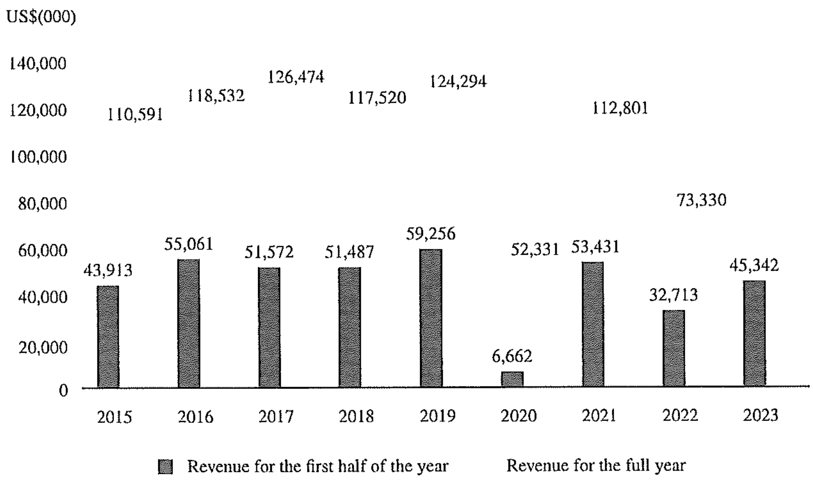
Dividend policy

The Group has paid a dividend in each full year during the Review Period. In 2021, the Board approved and updated the dividend policy, under which dividends to be distributed by the Company each year will be approximately 50% of the net profit attributable to owners of the Company for the previous financial year. For the six months ended 30 June 2023, no interim dividend has been declared (6M2022: US$0.001 per Share).

4. Prospects of the Group and risk factors

As stated in the 2023 Interim Report, with the reopening of theatres and the resumption of normal film release schedules as the theatrical exhibition industry continues to recover from the COVID-19 pandemic, normal operations have resumed in movie theatres throughout the IMAX China network in the first half of 2023. The Company's management is encouraged by the return of the prevalence of exclusive theatrical windows and the strong pipeline of movies scheduled to be released for theatrical exhibition throughout the remainder of 2023. According to Top Consulting, PRC box office revenue in the first half of 2023 was approximately RMB26,270 million, representing an increase of approximately 52.9% as compared to the corresponding period in 2022 (see Chart 1 above). Notwithstanding 6 months of reopening and the Company's 6M2023 box office performance relative to 6M2022, the share price remains at levels similar to the closure period. The revenue of the Group for 6M2023 was approximately US$45.3 million, lower than the corresponding periods in 2016 to 2019 (the pre-COVID-19 period) and 2021 (the year with relaxed COVID-19 control measures) ranging from approximately US$51.5 million to approximately US$59.3 million, as set out in the Chart 3 below, due to fewer number of sales/sales-type lease and hybrid installations in 6M2023.

Chart 3: Revenue of the Group



As illustrated in Chart 3, prior to the outbreak of COVID-19 pandemic, the revenue of the Group increased from approximately US$110.6 million for the year ended 31 December 2015 to approximately US$124.3 million for the year ended 31 December 2019, representing a growth rate of approximately 12.4%. This is below the growth of the annual box office in the PRC (see Chart 1 above) for the corresponding period, which increased by approximately 46.1% from approximately RMB43,880 million in 2015 to approximately RMB64,120 million in 2019. Based on Chart 3, the revenue growth of the Group has been slower than the growth of box office of the PRC market. The slower growth is mainly because, as discussed with the Management, the revenue of the Group is also driven by IMAX Maintenance and IMAX Systems sale installations not directly linked to box office.

As disclosed in the 2023 Interim Report, the impact of the COVID-19 pandemic on the Company's business and financial results will continue to depend on numerous evolving factors that cannot be accurately predicted and that will vary by jurisdiction and market. There remains uncertainty around whether and when movie-going will return to historical levels. The timing and extent of a recovery of consumer behaviour and willingness to spend discretionary income on movie-going after the COVID-19 pandemic may also affect the box office revenue of its exhibitor customers, and hence the income of the Group, until consumers behaviour normalises and consumer spending fully recovers.

As advised by the Management, the Company is encouraged by the normalisation of its business activities in 2023, including its 2023 box office results and market share gains relative to 2022. The Company is also encouraged by the Government's support for the films sector since the reopening in 2023 which includes factors such as (i) a temporary reduced tax rate on cinema tickets; (ii) longer lead time on film release date approvals to allow for marketing of films; and (iii) more foreign film releases with release dates often aligned with global release dates.

As a result of the financial difficulties faced by certain of the Group's exhibitor partners arising out of pandemic-related theatre closures, the Group has experienced and may continue to experience delays in collecting payments due under existing IMAX System sale or lease arrangements. The Group's exhibitor partners may continue to experience operational and/or financial difficulties if the COVID-19 pandemic continues or consumers change their behaviour and consumption partners, which would further increase the risks associated with payments due under existing agreements with the Group. The ability of such partners to make payments cannot be guaranteed and is subject to changing economic circumstances. Further, the Group has had to delay certain IMAX system installations from backlog and may be required to further delay or cancel such installations in the future. As a result, the Group's future revenues and cash flows have been, and may in the future continue to be adversely affected.

Given the dynamic nature of the business environment, it is difficult to predict the full extent of the adverse impact of the COVID-19 pandemic on the Group's results in future reporting periods. Progress towards the return to historical levels of movie theatre attendance and the effect on consumer behaviour are still unknown. The solvency of the Group's exhibitor partners, their ability to make timely payments, and any potential construction or installation delays involving the Group's exhibitor partners are highly uncertain and cannot be accurately forecasted.

An important factor affecting the growth and success of the IMAX Group is the availability and strategic selection of films for IMAX locations and the box office performance of such films. The Company relies principally on films produced by third-party filmmakers and studios, including both Hollywood and local language features converted into the Company's format. The number of films and commercial success of these films released to the IMAX network may be subject to macro and other evolving factors.

The Company has signed deals with studios in the PRC to convert their films to the Company's format and release them to the IMAX network. As advised by the Management, the Company has demonstrated strong ability in selecting the right mix of Hollywood and local language films, the continued success of which is critical to its future business and financial results.

Currently, Hollywood productions are being disrupted by industrial action by the Writers Guild of America and the Screen Actors Guild. Promoting the release of new films during the strikes without having talent available is challenging. If the strikes are not settled on a reasonable timetable, both promotion and production of movies may be compromised.

5. Financial position of the Group

Set out in the table below is a summary of the financial position of Group as at 30 June 2023 and 31 December 2022, 2021, 2020 and 2019.

	As at 30 June 2023 *(unaudited)* *(US$'000)*	**As at 31 December** **2022** *(audited)* *(US$'000)*	**2021** *(audited)* *(US$'000)*	**2020** *(audited)* *(US$'000)*	**2019** *(audited)* *(US$'000)*
Non-current assets					
Property, plant and equipment	76,474	86,689	100,200	104,752	105,348
Financing receivables	49,734	53,327	60,681	48,958	48,056
Other non-current assets	12,738	12,156	10,200	22,626	21,376
	138,946	152,172	171,081	176,336	174,780
Current assets					
Financing receivables	29,003	27,852	18,278	16,755	10,938
Trade and other receivables	67,471	60,267	51,496	42,223	43,227
Cash and cash equivalents	73,559	74,972	97,737	88,472	89,308
Other current assets	10,371	11,140	11,166	11,008	10,014
	180,404	174,231	178,677	158,458	153,487
Current liabilities					
Trade and other payables	22,453	21,845	21,107	21,296	15,170
Borrowings	9,278	12,871	3,612	7,643	–
Deferred revenue	10,036	12,777	18,875	15,514	12,878
Other current liabilities	15,881	15,326	15,254	15,028	15,439
	57,648	62,819	58,848	59,481	43,487
Net current assets	122,756	111,412	119,829	98,977	110,000

	As at 30 June 2023 (unaudited) (US$'000)	2022 (audited) (US$'000)	As at 31 December 2021 (audited) (US$'000)	2020 (audited) (US$'000)	2019 (audited) (US$'000)
Non-current liabilities					
Deferred revenue	13,197	14,570	19,390	24,077	24,920
Deferred tax liabilities	12,521	14,900	17,642	19,134	–
Other non-current liabilities	584	1,042	–	496	829
	26,302	30,512	37,032	43,707	25,749
Equity					
Equity attributable to the Shareholders	235,400	233,072	253,878	231,606	259,031
Net asset value ("NAV") per Share *(Note)*					
– *US$*	US$0.69	US$0.69	US$0.74	US$0.67	US$0.74
– *HK$ equivalent*	HK$5.37	HK$5.33	HK$5.75	HK$5.16	HK$5.76

Note: NAV per Share is calculated based on the equity attributable to the Shareholders divided by the number of Shares in issue as at the respective balance sheet date.

(i) Property, plant and equipment

Property, plant and equipment mainly represented theatre system components, including equipment under joint revenue sharing arrangements. The property, plant and equipment were generally decreasing during the Review Period as a result of the depreciation charges.

(ii) Financing receivables

Financing receivables consisted of net investment in finance leases and receivables from financed sales of theatre systems. The weighted average effective interest rate of financed sales receivables was between approximately 8.0% and 8.3% as at 31 December 2019 to 2022.

(iii) Trade and other receivables

The trade and other receivables mainly comprised: (i) net trade receivables from third parties (i.e., trade receivables less allowance for expected credit losses of trade receivables); and (ii) trade receivables from the Offeror arising from digital remastering revenue of Hollywood films. The trade and other receivables were generally increasing during the Review Period, of which the amount of trade receivables from the Offeror increased from approximately US$11.6 million as at 31 December 2019 to US$29.0 million as at 30 June 2023. Such increase was mainly because of the slowdown of payment process of the Offeror.

(iv) Trade and other payables

Trade and other payables chiefly comprised the payables to the Offeror, which were mainly for system purchase, conversion cost for digital remastering, trademark and technology fee, and service fee. The amounts were generally increasing during the Review Period, from approximately US$12.9 million as at 31 December 2019 to US$21.1 million as at 30 June 2023. Such increase was mainly due to the slowdown of payment process of the Company.

(v) Borrowings

All borrowings of the Group were bank borrowings during the Review Period. They were drawn to fund ongoing working capital requirements.

(vi) Deferred revenue

Deferred revenue derived from deposits received from theatre systems and maintenance prepayments. The total deferred revenue decreased from approximately US$37.8 million as at 31 December 2019 to approximately US$23.2 million as at 30 June 2023. Such decrease was mainly attributable to the reduction in backlog upfront fees, as the backlog number decreased from 253 as at 31 December 2019 to 197 as at 30 June 2023.

(vii) Deferred tax liabilities

Deferred tax liabilities represented primarily withholding tax on historical profits of a PRC subsidiary, which would become payable upon the repatriation of any such earnings. The deferred tax liabilities were approximately US$19.1 million, US$17.6 million, US$14.9 million and US$12.5 million as at 31 December 2020, 2021 and 2022, and 30 June 2023, respectively. The decrease was mainly because of the payment of dividend by the PRC subsidiary.

(viii) Net asset value

As at 31 December 2022, the NAV attributable to the Shareholders was approximately US$233.1 million. The decrease in the NAV attributable to the Shareholders as compared with that as at 31 December 2021 was mainly attributable to the loss incurred for foreign currency translation and payment of dividends during the year ended 31 December 2022. Based on 339,148,808 Shares and 339,593,143 Shares in issue as at 31 December 2022 and the Latest Practicable Date, the NAV per Share as at 31 December 2022 and the Latest Practicable Date were approximately US$0.69.

As at 30 June 2023, the NAV attributable to the Shareholders increased to approximately US$235.4 million, the increase of which was generally in line with the profit attributable to the Shareholders during the six months ended 30 June 2023, and partially offset by the decrease in share premium and reserves, which was primarily attributable to the distribution of final dividend for the year ended 31 December 2022. Based on the 339,593,143 Shares in issue as at 30 June 2023 and the Latest Practicable Date, the NAV per Share as at 30 June 2023 was approximately US$0.69, equivalent to approximately HK$5.37.

Based on the financial position of the Group as at 30 June 2023, the Group was asset-light, with less than one-fourth of assets being represented by property, plant and equipment. As at 30 June 2023, the Group had no material borrowing and cash and cash equivalents were approximately US$73.6 million. The Offer Price of HK$10.00 represents an approximately 86.1% premium over the NAV per Share of approximately HK$5.37.

6. Reasons for and benefits of the Proposal

As set out in the section headed "11. Reasons for and benefits of the Proposal" in the Explanatory Memorandum contained in the Scheme Document, trading liquidity in the Shares of the Company has declined significantly from an average daily trading volume of 982,361 Shares per day during 2018 to 301,831 Shares per day for the period from 1 January 2023 up to and including the Last Full Trading Date. This decline in liquidity limits the attractiveness of the Shares for market participants and impacts both the price for the Shares as well as the Company's ability to raise new capital on attractive terms. In addition to the low average daily trading volume, the Company's trading liquidity is low as compared to its total number of Shares in issue. For the period from 1 January 2023 up to and including the Last Full Trading Date, average daily trading volume of the Company's Shares as a percentage of its total number of Shares in issue was 0.09%, significantly lower as compared to 0.29% during 2018. The low level of trading liquidity also impacts Shareholders' ability to purchase and sell a significant quantity of Shares without adversely impacting the price. While the Company's financial performance has been resilient despite the impact of COVID-19 over the past few years, the Company's share price on the Last Full Trading Date remains near its all-time low (HK$4.01) with a 75.9% decline compared to its all-time high since 2018 (HK$29.80). While the Company has been effecting share repurchases to demonstrate its confidence in the long-term prospect of the Company, the potential cap on the Offeror's ownership in the Company at 75% (in order to maintain its public float of 25%) will impede the Offeror's ability to further repurchase shares, as it now owns close to 71.63%.

The Offeror believes that the Proposal provides an opportunity for the Scheme Shareholders to dispose of their Shares at a compelling premium over recent market prices without being subject to any liquidity discount. The Offer Price of HK$10.00 for each Scheme Share represents a premium of approximately 39.47% over the closing price of HK$7.1700 per Share as quoted on the Stock Exchange on the Last Full Trading Date, and a premium of approximately 49.16% and 34.78% over the average closing price of approximately HK$6.7043 and HK$7.4194 per Share for the 30 and 90 trading days up to and including the Last Full Trading Date, respectively.

From the Offeror's point of view, the Proposal will enable greater operational flexibilities to pursue new growth opportunities and applications of IMAX technology in the Greater China market. The Offeror expects that the Proposal will unlock the financial benefits for the Offeror, enable the Offeror and the Company to streamline its group structure and further align the Greater China business with the Offeror's global operations, including optimising its corporate structure and group tax planning, and simplification in financial reporting.

Our analysis of the historical Share price performance and trading liquidity is set out in the section headed "8. Analysis of the Share price" below.

7. Information on the Offeror and its intention with regard to the Group

The Offeror is a company incorporated in Canada with limited liability and is listed on the New York Stock Exchange. The Offeror is a premier global technology platform for entertainment and events. Through its proprietary software, theatre architecture, patented intellectual property, and specialised equipment, the Offeror offers a unique end-to-end solution to create superior, immersive content experiences. As at the Latest Practicable Date, the Offeror was indirectly interested in 243,262,600 Shares, representing approximately 71.63% of the issued share capital of the Company, through its wholly-owned subsidiary, IMAX Barbados.

The closing price of the shares of the Offeror since the beginning of 2022 and up to the trading day immediately before the Latest Practicable Date were ranged from US$12.19 to US$21.14. As at the trading day immediately before the Latest Practicable Date, the market capitalisation of the Offeror was approximately US$1,024 million.

As set out in the section headed "9. Intentions of the Offeror with regard to the Group" in the Explanatory Memorandum contained in the Scheme Document, as at the Latest Practicable Date, it is the intention of the Offeror for the Group to continue to carry on its existing business. The Company will remain headquartered in Shanghai with offices in Beijing.

As discussed above, the Offeror is itself a public company listed on New York Stock Exchange. It has stated that it expects the Proposal to be accretive to the earnings per share immediately following implementation of the Proposal based on the Offeror's and the Company's historical financials. In circumstances where a public company is making an offer for another public company which it controls, a balance will be struck between the advantages to both sets of shareholders.

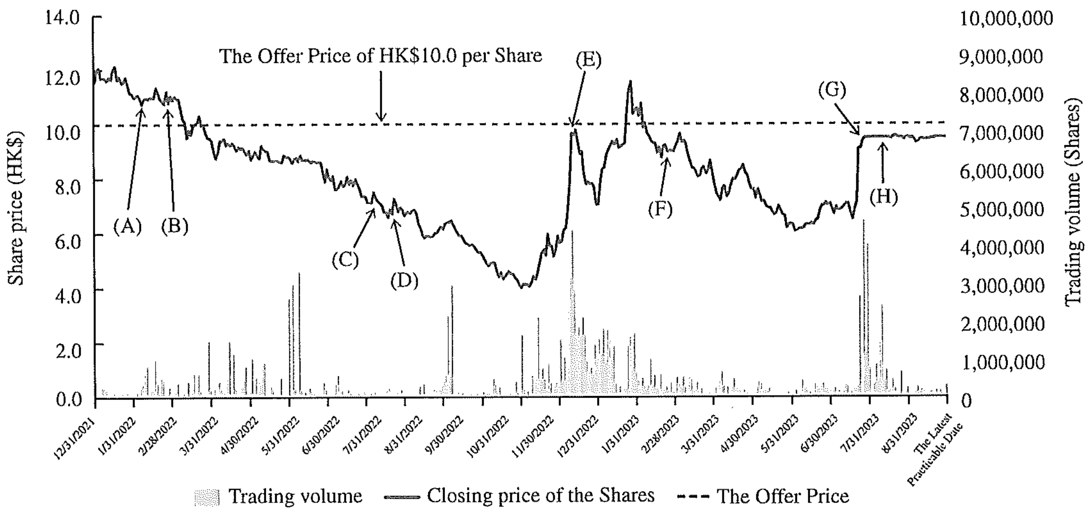
No statement in this section headed "7. Information on the Offeror and its intention with regard to the Group" should be interpreted to mean that the earnings or financial performance of the Offeror or the Company for the current year or future years will necessarily match or exceed the historical or published earnings or financial performance of the Offeror or the Company, respectively.

8. Analysis of the Share price

(a) Historical Share price performance

Set out in Chart 4 below is the daily closing price and trading volume of the Shares on the Stock Exchange during the period from 1 January 2022 up to and including the Latest Practicable Date ("**Share Price Review Period**"). We consider that a review period covering around 20 months is reasonable and representative as we consider it a sufficient period to provide a general overview of the recent market performance of the Shares for the purpose of this analysis, which reflects the prevailing market sentiment for conducting a reasonable comparison between the closing prices of the Shares and the Offer Price.

Chart 4



Source: The Stock Exchange website

During the Share Price Review Period, the Company published a number of announcements (as summarised below) that we consider may have influenced the market price of the Shares.

	Date of announcement	**Description of the event**
(A)	7 February 2022	Announcement of positive profit alert
(B)	24 February 2022	Announcement of annual results for the year ended 31 December 2021
(C)	29 July 2022	Announcement of interim results for the six months ended 30 June 2022

	Date of announcement	Description of the event
(D)	5 August 2022	Announcement of (1) change of executive Director and chief executive officer; and (2) re-designation of non-executive Director to executive Director and appointment of interim chief executive officer
(E)	12 December 2022	Announcement of appointment of chief executive officer
(F)	23 February 2023	Announcement of annual results for the year ended 31 December 2022
(G)	13 July 2023	Publication of the Announcement
(H)	27 July 2023	Announcement of interim results for the six months ended 30 June 2023

During the period from 1 January 2022 to 10 July 2023 (i.e., the Last Full Trading Date) ("**Pre-Announcement Period**"), the Shares closed between HK$4.01 and HK$12.14, with an average and a median closing price of both approximately HK$7.98. Out of a total of 372 trading days during the Pre-Announcement Period, there were 317 trading days, representing approximately 85.2% of the total of 372 trading days, when the Shares price closed below the Offer Price.

At the beginning of the Share Price Review Period, the closing Share price was in the region of approximately HK$11.00 to approximately HK$12.00, which in our view reflected positive market sentiment, which proved premature, regarding the relaxation of COVID-19 control measures in the PRC in 2021 and positive annual results of the Company for the year ended 31 December 2021.

The closing Share price then commenced a downward trend and reached its lowest point of HK$4.01 on 4 November 2022. It then rebounded to HK$9.77 by 13 December 2022, reflecting expectation for the business of the Group after the announcement of significant easing of COVID-19 control measures by the Chinese government in early December 2022. Nevertheless, the closing Share Price dropped sharply after mid-December 2022 to HK$7.05 on 30 December 2022, which was likely influenced by a significant rise in the number of local COVID-19 cases during this period. The closing Share price bounced back and stayed above HK$10.00 for a short period of time in late January 2023 and early February 2023, driven in part by a short-term PRC reopening trade and largely in line with improvements in the Hong Kong stock market. Since then, the closing Share price resumed a downward trend to around HK$6.07 in late-May 2023, increasing gradually to HK$7.17 on the Last Full Trading Date.

The closing Share Price at the Last Trading Date (i.e., 11 July 2023) jumped to HK$9.12, representing an increase of approximately 27.2% from the prior trading day (i.e., the Last Full Trading Date), and the trading of the Shares was suspended from 11 July 2023 to 12 July 2023 pending the release of the Announcement. The Shares closed at HK$9.40 on 13 July 2023 (being the first trading day after the release of the Announcement), representing an increase of approximately 31.1% from the closing Share price as at the Last Full Trading Date and a discount of 6.0% to the Offer Price.

Notwithstanding the return to profitability in the first half of 2023, normalisation of business activities including the reopening of theatres, increased number of film releases, profitability and industry box office at approximately 84% of 2019 pre-COVID levels, the Share price has not reflected a similar normalisation to pre-COVID levels.

After the release of the Announcement and up to the Latest Practicable Date, the closing price of the Shares has been between HK$9.32 and HK$9.57, with an average closing price of HK$9.49. In our view, the market price of the Shares during this period has been principally driven by the Offer Price of HK$10.00 and would likely weaken, at least in the short term, were the Proposal to fail.

As at the Latest Practicable Date, the price of the Shares closed at HK$9.51.

(b) Historical Share price performance and NAV per Share compared to the Offer Price of HK$10.00 per Scheme Share

A comparison of the Offer Price of HK$10.00 per Scheme Share with the recent closing prices of the Shares and the NAV per Share is set out as follows:

	Closing price or average closing price of the Shares or NAV per Share	**Premium of the Offer Price of HK$10.00 per Scheme Share over the closing price or average closing price of the Shares or the NAV per Share**
Last Trading Date	HK$9.12	9.6%
Last Full Trading Date	HK$7.17	39.5%
The 10 trading days *(Note 1)*	HK$6.91	44.6%
The 30 trading days *(Note 1)*	HK$6.70	49.2%
The 60 trading days *(Note 1)*	HK$6.96	43.6%
The 90 trading days *(Note 1)*	HK$7.42	34.8%
The 120 trading days *(Note 1)*	HK$7.98	25.3%
The Latest Practicable Date	HK$9.51	5.2%
Audited NAV per Share as at 31 December 2022 *(Note 2)*	HK$5.32	88.0%
Unaudited NAV per Share as at 30 June 2023 *(Note 2)*	HK$5.37	86.1%

Sources: The Stock Exchange website, the 2022 Annual Report and the 2023 Interim Report

Notes:

1. Up to and including the Last Full Trading Date.

2. The NAV per Share is calculated based on the total number of issued Shares as at the Latest Practicable Date of 339,593,143 Shares.

The Offer Price of HK$10.0 per Scheme Share represents a premium of approximately 25.3% to approximately 49.2% over the closing Share price on the Last Full Trading Date and the average closing price of the Shares for the last 10-, 30-, 60-, 90- and 120-trading day (up to and including the Last Full Trading Date) before the release of the Announcement. The closing Share price as at the Latest Practicable Date and the corresponding premium were HK$9.51 and approximately 5.2%, respectively. We consider that the Share price as at the Latest Practicable Date and the reduced premium are affected by the Proposal.

9. Premium over NAV

The Offer Price represents a premium in the region of approximately 88.0% over the audited NAV per Share as at 31 December 2022 and approximately 86.1% over the unaudited NAV per Share as at 30 June 2023.

10. Trading liquidity of the Shares

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued Shares and the Shares held by the Disinterested Shareholders in the Share Price Review Period:

	Monthly total trading volumes of the Shares	**Percentage of the monthly total trading volumes of the Shares to the total issued Shares** *(Note 1)*	**Percentage of the monthly total trading volumes to the Shares held by the Disinterested Shareholders** *(Note 2)*
2022			
January	1,808,739	0.5%	1.9%
February	5,164,508	1.5%	5.4%
March	5,987,185	1.8%	6.2%
April	7,425,291	2.2%	7.7%
May	12,442,020	3.7%	12.9%
June	3,003,860	0.9%	3.1%
July	1,294,200	0.4%	1.3%
August	2,010,042	0.6%	2.1%
September	8,075,771	2.4%	8.4%
October	1,931,600	0.6%	2.0%
November	10,110,296	3.0%	10.5%
December	31,390,111	9.2%	32.6%
2023			
January	16,219,900	4.8%	16.8%
February	6,410,092	1.9%	6.7%
March	5,563,586	1.6%	5.8%
April	2,661,275	0.8%	2.8%
May	2,383,819	0.7%	2.5%
June	3,720,182	1.1%	3.9%
July	20,721,137	6.1%	21.5%
August	3,409,223	1.0%	3.5%
From 1 September 2023 up to and including the Latest Practicable Date	845,700	0.2%	0.9%

Source: The Stock Exchange website

Notes:

1. The calculation is based on the monthly total trading volume of the Shares divided by the total issued Shares of 339,593,143 as at Latest Practicable Date.

2. The calculation is based on the monthly total trading volume of the Shares divided by the total number of Shares of 96,330,543 held by the Disinterested Shareholders as at the Latest Practicable Date.

As shown in the above table, the monthly trading volumes of the Shares represented approximately 0.4% to 9.2% of the total issued Shares and approximately 1.3% to 32.6% of the Shares held by the Disinterested Shareholders (except for the period from 1 September 2023 up to and including the Latest Practicable Date). We are of the view that the liquidity of the Shares was generally low during the Share Price Review Period save for the surges in trading volume (i) during November 2022 to January 2023 which may be attributable to growing expectation on the business of the Group amid the announcement of significant easing of COVID-19 control measures by the Chinese government; and (ii) in July 2023 following the release of the Announcement. As discussed with the Management, the reasons for the low liquidity include: (i) lower investor interest over the past few years due to COVID-impacted theatre closure and the low market capitalisation of the Company; (ii) total share repurchases of approximately 21.1 million from 2018-2022 reduced the public float; (iii) the Shares being removed from trading in Shanghai Stock Connect (10 September 2018) and Shenzhen Stock Connect (15 March 2021) due to minimum market capitalisation thresholds; and (iv) fewer analyst coverage, being 3 currently compared to over 10 in pre-COVID period. As the Shares cannot be regarded as having been actively traded, the Proposal provides an exit opportunity for the Scheme Shareholders who would like to realise their investments in the Shares at a fixed cash price (i.e., the Offer Price).

11. Comparable Companies analysis

As stated in the section headed "III.1. Background and information of the Company" in this letter, the Group is principally engaged in the entertainment industry specialising in digital and film-based motion picture technologies, and all revenue generated by the Group for the year ended 31 December 2022 was derived from Greater China, including the PRC, Hong Kong, Taiwan and Macau. In assessing the fairness and reasonableness of the Offer Price, we have conducted research on companies listed on the Main Board of the Stock Exchange which are principally engaged in a similar business or where business is affected by similar factors in Greater China. We have been unable to identify a company with a precisely similar business model. Consequently, we have extended our research to companies that are principally engaged in film and drama content production, distribution and exhibition in Greater China which, in our opinion, are useful comparisons to the Group on the basis that (i) they operate in the same sector in which the Group is principally classified (i.e., movies and entertainment industry); and (ii) they are subject to similar market risk factors as the Group.

Based on the above criteria, we have identified seven comparable companies ("**Comparable Companies**") which are (i) principally engaged in film and drama content production, distribution and exhibition (i.e., such business activities are the single largest business segment of the respective Comparable Companies in terms of revenue) and primarily operated business in Greater China (i.e., with not less than 50.0% of revenue derived from Greater China based on their latest published annual reports as at the Latest Practicable Date); and (ii) listed on the Main Board of the Stock Exchange with market capitalisation of not less than HK$323 million (being one-tenth of the market capitalisation of the Company as at the Latest Practicable Date). The Comparable Companies set out in the table below represent an exhaustive list of companies comparable to the Group based on the above criteria.

In assessing the fairness and reasonableness of the Offer Price, we have compared the price-to-earnings multiple ("**P/E Multiple**"), enterprise value-to-earnings before interest, taxes, depreciation and amortisation multiple ("**EV/EBITDA Multiple**"), price-to-book multiple ("**P/B Multiple**") and dividend yield of the Group implied by the Offer Price to those of the Comparable Companies. Details of the Comparable Companies are set out as below:

Company name	Stock code	Principal business activities	Market capitalisation *(HK$ million)* *(Note 1)*	P/E Multiple *(times)* *(Note 2)*	EV/EBITDA Multiple *(times)* *(Note 3)*	P/B Multiple *(times)* *(Note 4)*	Dividend yield *%* *(Note 5)*
Alibaba Pictures Group Limited ("**Alibaba Pictures**")	1060	Engaged in the movie promotion and distribution	13,487.9	N/A *(Note 6)*	N/A *(Note 7)*	0.9	0.0
Maoyan Entertainment ("**Maoyan**")	1896	Engaged in the provision of online entertainment ticketing services, entertainment content services, movies and television ("**TV**") series investments, advertising services and others in the PRC	12,237.5	31.1	11.3	1.3	0.0
Linmon Media Limited ("**Linmon**")	9857	Engaged in the production, distribution and licensing of broadcasting rights of TV series	3,330.6	N/A *(Note 6)*	N/A *(Note 7)*	1.2	0.0
Huanxi Media Group Limited ("**Huanxi**")	1003	Engaged in (i) the media and entertainment businesses; and (ii) the development and investment in film and TV programmes rights, as well as operation of an online video platform	2,961.7	10.9	4.3	1.8	0.0
China Star Entertainment Limited ("**China Star**")	326	Engaged in (i) investment, production, distribution and licensing of films and television drama series and provision of other film related services including artist management services; and (ii) investing and development of properties located in Macau	2,042.5	N/A *(Note 6)*	N/A *(Note 7)*	0.7	0.0

Company name	Stock code	Principal business activities	Market capitalisation *(HK$ million)* *(Note 1)*	P/E Multiple *(times)* *(Note 2)*	EV/EBITDA Multiple *(times)* *(Note 3)*	P/B Multiple *(times)* *(Note 4)*	Dividend yield *%* *(Note 5)*
Strawbear Entertainment Group ("Strawbear")	2125	Involved in the production, distribution and licensing of broadcasting rights of TV and web series	483.3	N/A *(Note 6)*	25.3	0.2	0.0
Medialink Group Limited ("Medialink")	2230	Engaged in (i) the distribution of media content including animation series, variety shows, drama series, animated and live action feature films and other video content; and (ii) obtaining various rights to use third party owned brands	380.5	8.0	1.8	0.7	5.9
			Average	16.7	10.7	1.0	0.8
			Median	10.9	7.8	0.9	0.0
			Maximum	31.1	25.3	1.8	5.9
			Minimum	8.0	1.8	0.2	0.0
The Offer Price			**3,395.9** *(Note 8)*	**18.4** *(Note 9)*	**7.8** *(Note 10)*	**1.9** *(Note 11)*	**1.3** *(Note 12)*

Sources: Bloomberg, the website of the Stock Exchange and the respective published financial reports/results of the Comparable Companies

Notes:

1. The market capitalisations of the Comparable Companies are calculated based on the closing share price of the Comparable Companies as at the Latest Practicable Date multiplied by the latest number of outstanding shares of the Comparable Companies.

2. The P/E Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date as described in note 1 divided by the trailing 12 months' consolidated earnings attributable to shareholders of the respective companies as referenced from their most recently published financial reports/results.

3. The EV/EBITDA Multiples of the Comparable Companies are calculated based on the enterprise values of the Comparable Companies divided by the earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of the Comparable Companies. The enterprise values of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date as described in note 1 plus the book value of external debt and non-controlling interest, and minus the cash and cash equivalents and restricted/time deposit of the respective companies as referenced from their most recently published financial report/results. The EBITDA of the Comparable Companies is calculated based on profit before taxes, net finance costs, depreciation and amortisation expenses for the trailing 12 months as referenced from their most recently published financial report/results.

4. The P/B Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date as described in note 1 divided by the consolidated NAV attributable to the shareholders of the Comparable Companies as set out in their most recently published financial reports/results.

5. The dividend yields of the Comparable Companies are calculated based on the total dividends per share declared and/or proposed by the Comparable Companies in the latest 12-month period prior to the Latest Practicable Date divided by the closing share price of the Comparable Companies as at the Latest Practicable Date.

6. Alibaba Pictures, Linmon, China Star and Strawbear were loss-making for the trailing 12 months and hence their P/E Multiples are not applicable.

7. The EBITDA of Alibaba Pictures, Linmon and China Star were negative for the trailing 12 months and hence their EV/EBITDA Multiples are not applicable.

8. The implied market capitalisation of the Company is calculated based on the Offer Price of HK$10.00 multiplied by the outstanding Shares as at the Latest Practicable Date.

9. The implied P/E Multiple of the Offer Price of approximately 18.4 times is calculated based on the implied market capitalisation of the Company as described in note 8 divided by the trailing 12 months' consolidated earnings attributable to the Shareholders of approximately US$23.9 million (equivalent to approximately HK$185.0 million).

10. The implied EV/EBITDA of the Offer Price of approximately 7.8 times is calculated based on the implied market capitalisation of the Company as described in note 8 plus the book value of external debt of the Company, and minus cash and cash equivalents of the Company as referenced from 2023 Interim Report. The EBITDA of the Company is calculated based on profit before taxes, net finance costs, depreciation and amortisation expenses for the trailing 12 months as referenced from the 2022 Annual Report and 2023 Interim Report.

11. The implied P/B Multiple of the Offer Price of approximately 1.9 times is calculated based on the implied market capitalisation of the Company as described in note 8 divided by the NAV of the Group attributable to the Shareholders as at 30 June 2023 of approximately US$235.4 million (equivalent to approximately HK$1,824.4 million).

12. The implied dividend yield of the Offer Price of approximately 1.3% is calculated based on the sum of the final dividend of the Company declared for the year ended 31 December 2022 of HK$0.117 per Share and the interim dividend of the Company declared for the year ended 31 December 2022 of HK$0.008 per Share divided by the Offer Price of HK$10.00 per Share.

As set out in the table above, the P/E Multiples of the Comparable Companies range from approximately 8.0 times to approximately 31.1 times, with an average and a median of approximately 16.7 times and approximately 10.9 times, respectively. The implied P/E Multiple of the Offer Price of approximately 18.4 times is higher than the average and median of those of the Comparable Companies.

The EV/EBITDA Multiples of the Comparable Companies range from approximately 1.8 times to approximately 25.3 times, with an average and a median of approximately 10.7 times and approximately 7.8 times, respectively. The implied EV/EBITDA of the Offer Price of approximately 7.8 times is lower than the average of the Comparable Companies but equal to the median of the Comparable Companies and well within the range of the EV/EBITDA of Comparable Companies.

The P/B Multiples of the Comparable Companies range from approximately 0.2 times to approximately 1.8 times, with an average and a median of approximately 1.0 times and approximately 0.9 times, respectively. The implied P/B Multiple of the Offer Price of approximately 1.9 times is higher than the average and median of those of the Comparable Companies.

Among the Comparable Companies, only Medialink has declared a dividend in the latest 12-month period prior to the Latest Practicable Date.

Overall, in comparison to the Comparable Companies, the implied P/E Multiple and the implied P/B Multiple of the Offer Price are higher than the average and the median of those of the Comparable Companies. The implied EV/EBITDA Multiple is equal to the median of those of the Comparable Companies and well within the range of the Comparable Companies. In our opinion, this indicates that the Offer Price is a reasonable exit opportunity for the Disinterested Shareholders from the perspective of the rating of the Comparable Companies.

12. Privatisation precedents

We have compared the Proposal to privatisation proposals for companies listed on the Main Board of the Stock Exchange announced since 1 January 2021 and up to the Latest Practicable Date, where the required acceptance level was achieved and involved a cash consideration (excluding combined consideration of cash and shares) ("**Privatisation Precedents**"). Based on these criteria, we have identified 36 Privatisation Precedents, which are exhaustive and a fair representation of transactions comparable to the Proposal. The table below illustrates the premiums/discounts represented by the cancellation/offer price over/to the respective last trading day/last full trading day/unaffected price date and respective last 10, 30, 60, 90 and 120 trading days/last full trading day/unaffected price date average share prices as well as the respective NAV attributable to owners of the company per share in respect of such Privatisation Precedents:

Date of the first rule 3.5/3.7 of the Takeovers Code announcement	Company	Stock code	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over						Premium/ (discount) of the cancellation/ offer price over/(to) NAV attributable to owners of the company per share
			Last trading day/last full trading day/ unaffected price date *(Note 1)*	10 trading days *(Notes 1 and 2)*	30 trading days *(Notes 1 and 2)*	60 trading days *(Notes 1 and 2)*	90 trading days *(Notes 1 and 2)*	120 trading days *(Notes 1 and 2)*	
27-Jun-23	Dali Foods Group Company Limited	3799	37.9%	39.4%	30.2%	21.8%	20.2%	16.1%	151.7%
8-May-23	Hailan Holdings Limited	2278	5.0%	5.0%	5.0%	8.4%	12.4%	3.4%	(3.2)%
29-Mar-23	Inner Mongolia Yitai Coal Co., Ltd.	3948	54.9%	63.7%	67.3%	64.2%	65.1%	66.2%	2.6%
21-Feb-23	Jiangnan Group Limited	1366	12.7%	89.9%	101.4%	99.6%	90.2%	82.6%	(63.8)%
17-Feb-23	AAG Energy Holdings Limited	2686	10.1%	9.3%	10.8%	24.2%	27.2%	25.9%	(27.5)%
24-Oct-22	Kingston Financial Group Limited	1031	47.8%	47.6%	39.4%	33.3%	29.9%	26.6%	(74.8)%
8-Aug-22	EVOC Intelligent Technology Company Limited	2308	15.1%	44.6%	44.6%	50.9%	52.2%	51.2%	(40.9)%

Date of the first rule 3.5/3.7 of the Takeovers Code announcement	Company	Stock code	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over Last trading day/last full trading day/ unaffected price date *(Note 1)*	10 trading days *(Notes 1 and 2)*	30 trading days *(Notes 1 and 2)*	60 trading days *(Notes 1 and 2)*	90 trading days *(Notes 1 and 2)*	120 trading days *(Notes 1 and 2)*	Premium/ (discount) of the cancellation/ offer price over/(to) NAV attributable to owners of the company per share
7-Aug-22	Lifestyle International Holdings Limited	1212	62.3%	81.9%	70.1%	58.7%	48.1%	38.7%	182.9%
9-Jun-22	China VAST Industrial Urban Development Company Limited	6166	30.4%	28.8%	31.4%	36.9%	42.1%	45.8%	(45.2)%
2-Jun-22	Xiamen International Port Co., Ltd	3378	55.2%	100.9%	134.2%	150.0%	155.7%	158.6%	(14.8)%
16-Mar-22	Yashili International Holdings Ltd	1230	160.9%	150.5%	138.5%	134.2%	127.3%	124.4%	(6.3)%
24-Jan-22	Guodian Technology & Environmental Group Corporation Limited	1296	48.0%	103.8%	93.1%	107.7%	93.9%	99.1%	(13.6)%
14-Jan-22	AKM Industrial Company Limited	1639	14.5%	31.4%	25.8%	29.0%	40.7%	50.9%	70.9%
17-Dec-21	Lanzhou Zhuangyuan Pasture Co., Ltd.	1533	25.2%	47.4%	43.5%	54.3%	58.8%	62.3%	26.5%
1-Dec-21	RAZER INC.	1337	55.8%	61.4%	67.9%	59.3%	51.6%	39.7%	487.5%
24-Nov-21	Shanghai Jin Jiang Capital Company Limited	2006	56.6%	67.6%	77.1%	85.6%	86.8%	82.7%	8.8%
15-Oct-21	Yorkey Optical International (Cayman) Ltd.	2788	75.3%	101.0%	102.6%	101.0%	101.0%	101.4%	20.7%
8-Oct-21	Dragon Crown Group Holdings Limited	935	8.5%	7.5%	9.4%	20.8%	28.3%	34.7%	36.2%
30-Sep-21	C.P. Pokphand Co. Ltd.	43	19.8%	17.4%	27.8%	33.7%	30.7%	27.0%	5.9%

Date of the first rule 3.5/3.7 of the Takeovers Code announcement	Company	Stock code	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over Last trading day/last full trading day/ unaffected price date *(Note 1)*	10 trading days *(Notes 1 and 2)*	30 trading days *(Notes 1 and 2)*	60 trading days *(Notes 1 and 2)*	90 trading days *(Notes 1 and 2)*	120 trading days *(Notes 1 and 2)*	Premium/ (discount) of the cancellation/ offer price over/(to) NAV attributable to owners of the company per share
6-Sep-21	Hop Hing Group Holdings Limited	47	73.9%	76.2%	70.9%	62.9%	61.0%	62.9%	63.9%
25-Aug-21	Suchuang Gas Corporation Limited	1430	2.9%	23.2%	25.6%	26.3%	26.3%	25.4%	30.2%
12-Aug-21	Good Friend International Holdings Inc.	2398	50.0%	73.8%	61.6%	49.0%	38.9%	33.5%	15.4%
27-Jul-21	Nature Home Holding Company Limited	2083	39.3%	38.2%	31.8%	30.8%	38.4%	45.2%	(15.8)%
9-Jul-21	Beijing Capital Land Ltd.	2868	62.8%	77.2%	127.6%	150.0%	142.5%	132.3%	(38.4)%
25-Jun-21	Bestway Global Holding Inc.	3358	27.0%	32.7%	47.0%	62.8%	72.1%	84.3%	16.5%
18-May-21	Chong Hing Bank Limited	1111	97.0%	102.5%	107.4%	109.9%	113.5%	114.9%	(10.1)%
20-Apr-21	Inner Mongolia Energy Engineering Co. Ltd.	1649	51.3%	55.2%	40.6%	30.4%	25.5%	28.6%	55.2% *(Note 3)*
28-Feb-21	Xiezhong International Holdings Limited	3663	17.6%	21.2%	25.0%	37.9%	41.8%	36.0%	116.2%
25-Feb-21	Sichuan Languang Justbon Services Group Co., Ltd.	2606	39.4%	46.6%	46.8%	59.6%	57.4%	45.0%	183.6%
5-Feb-21	Zhejiang Cangnan Instrument Group Company Limited	1743	15.2%	13.1%	18.0%	25.2%	4.4%	(15.4)%	20.2%
27-Jan-21	New Century Real Estate Investment Trust	1275	14.3%	23.5%	34.0%	52.6%	61.6%	66.1%	(22.0)%
22-Jan-21	Zhuhai Holdings Investment Group Limited	908	37.8%	37.5%	52.4%	56.1%	57.4%	63.6%	76.4%

Date of the first rule 3.5/3.7 of the Takeovers Code announcement	Company	Stock code	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over: Last trading day/last full trading day/ unaffected price date (Note 1)	10 trading days (Notes 1 and 2)	30 trading days (Notes 1 and 2)	60 trading days (Notes 1 and 2)	90 trading days (Notes 1 and 2)	120 trading days (Notes 1 and 2)	Premium/ (discount) of the cancellation/ offer price over/(to) NAV attributable to owners of the company per share
21-Jan-21	Polytec Asset Holdings Limited	208	61.3%	63.2%	72.6%	94.2%	104.1%	105.8%	(53.0)%
20-Jan-21	Zhejiang New Century Hotel Management Co., Ltd.	1158	24.7%	22.3%	20.8%	19.7%	20.3%	22.8%	174.8%
17-Jan-21	HKC (Holdings) Limited	190	120.4%	123.0%	119.8%	109.4%	100.3%	93.7%	(70.2)%
13-Jan-21	China Machinery Engineering Corporation	1829	45.1%	93.7%	118.9%	127.0%	126.3%	118.0%	(29.4)%
		Average	43.8%	56.2%	59.5%	63.3%	62.6%	61.1%	33.8%
		Median	39.4%	47.5%	46.9%	55.2%	54.8%	51.1%	7.4%
		Maximum	160.9%	150.5%	138.5%	150.0%	155.7%	158.6%	487.5%
		Minimum	2.9%	5.0%	5.0%	8.4%	4.4%	(15.4)%	(74.8)%
		The Proposal	39.5%	44.6%	49.2%	43.6%	34.8%	25.3%	86.1%

Source: Bloomberg and website of the Stock Exchange

Notes:

1. Subject to rounding differences.

2. Up to and including the last trading day/last full trading day/unaffected price date of the shares prior to the publication of the first Rule 3.5 announcement or Rule 3.7 announcement (where applicable).

3. The amount represents the premium of the offer price over unaudited NAV as at 31 December 2020 as no audited NAV of the Company had been available since 2018.

The terms of the Privatisation Precedents set out above, in our view, serve to illustrate the premium over market prices needed in Hong Kong to secure a successful privatisation, i.e., how much shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges. An analysis of privatisation precedents is widely used in assessing the pricing of privatisation proposals in Hong Kong. Although the business nature and scale of each company vary and some aspects of pricing are likely to be industry-specific, this analysis provides in our view a meaningful analysis of the pricing of recent successful privatisations of companies listed on the Main Board of the Stock Exchange under recent market sentiments, as well as a benchmark for the Disinterested Shareholders when evaluating the premium provided in the Proposal. Accordingly, we regard the Privatisation Precedents as a relevant benchmark for the acceptable privatisation premium range in the market and one of the factors we consider in assessing the fairness and reasonableness of the Offer Price.

Based on the table above, the premiums represented by the Offer Price over the closing Share prices on the Last Full Trading Date and for the last 30 trading days are above the corresponding medians of those of the Privatisation Precedents. The premiums represented by the Offer Price over the closing Share prices for a longer period (i.e., last 60, 90 and 120 trading days) are lower than both the corresponding averages and medians of the Privatisation Precedents but are still well within the range. Accordingly, as the premiums represented by the Offer Price are well within the range of those of the Privatisation Precedents, we consider the terms of the Proposal are in line with market. In addition, the premium represented by the Offer Price of HK$10.00 per Scheme Share over the NAV attributable to owners of the Company per share is above the mean and the median of the Privatisation Precedents. Overall, we consider the premiums represented by the Offer Price are reasonable from the point of view of the Disinterested Shareholders.

IV. DISCUSSION AND ANALYSIS

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed "III. Principal factors and reasons considered" above as a whole. We would like to draw the attention of the Disinterested Shareholders in particular to the points summarised below:

1. The industry and its risk factors

The development of the PRC film industry has been generally positive throughout the last decade prior to the outbreak of COVID-19 pandemic. The annual box office revenue in the PRC registered a CAGR approximately 20.0% from 2013 to 2019. During the outbreak of COVID-19 pandemic in 2020 to 2022, various control measures including closures of theatres were implemented in the PRC. Consequently, there were sharp decreases in the PRC box office revenue during this period. When the Chinese government relaxed its dynamic zero-COVID policies and significantly eased restrictions at the end of 2022, there was a significant rebound in the PRC box office revenue in the first half of 2023, back to approximately 84% of the level of first half of 2019.

However, it is unclear at the moment if the box office rebound in the first half of 2023 was due to pent-up demand or consumers' movie-going behaviour returning to normal. The impact of the COVID-19 pandemic on the PRC film industry will continue to depend on numerous factors which are still evolving. The timing and extent of a recovery of consumer behaviour and willingness to spend discretionary income on movie-going will affect the revenue of the PRC film industry and all its players.

A number of Hollywood films were not released in the PRC in 2021 and 2022, including several films released in IMAX format in other markets. This could happen again in the future though the cadence of Hollywood film releases has returned to normal in 2023. Audience sentiment towards Hollywood films may also vary.

In macro-economic terms, the growth of the PRC economy and the level of consumer spending fell below some expectations in the first half of the year. The slower-than-expected growth in the economy in general and in consumer spending could impact the film industry in the short to medium term.

2. Past financial performance

The financial performance of the Group has fluctuated in the period under review. Prior to the outbreak of COVID-19, the Group's revenue grew but lagged behind the growth of the film industry as a whole. Revenue of the Group declined during 2020 to 2022, with losses in 2020, but amounted to approximately US$45.3 million for the six months ended 30 June 2023. The net profit also rebounded to approximately US$13.9 million for that period. The net profit of approximately US$13.9 million for the six months ended 30 June 2023 was still below net profits of approximately US$24.0 million and approximately US$20.5 million recorded for the corresponding period in the pre-COVID years of 2019 and 2018, respectively. Accordingly, the Group's recovery has yet to reach the levels of the pre-COVID years.

3. Outlook of the Company

As mentioned above, for the six months ended 30 June 2023, the Group's revenue bounced back as a result of theatre reopening, increasing approximately 38.5% as compared to the corresponding period in 2022. The Group's box office market share on films programmed also increased demonstrating audience demand for Group's format. While this rebound is encouraging, the Group's revenue was lower than the corresponding periods in the pre COVID-19 period and the revenue growth of the Group (approximately 12.4%) compares to the growth of annual box office of the PRC market of approximately 46.1% during the period in 2015 to 2019.

More than half of the films released to the IMAX network in the first half of 2023 were Hollywood productions. Such productions are currently being disrupted by industrial action by the Writers Guild of America and the Screen Actors Guild. If this action continues, film releases may be postponed and film marketing efforts may be interrupted.

Certain of the Company's exhibitor partners in the PRC have experienced financial difficulties owing to pandemic-related theatre closures. This has caused delays in past payments due and the ability of such partners to make future payments is subject to changing economic conditions. Further, the Group has had to delay certain IMAX installation systems and may be required to further delay or cancel such installations in the future.

The Group's revenue and results are directly impacted by the commercial success and box office results of the films released to the IMAX network through its joint revenue sharing arrangements, as well as through the percentage of the box office receipts the Group receives from the studios releasing IMAX films. Should any film exhibited in IMAX theatres under revenue sharing arrangements perform poorly, the amount of the box office revenue the Group receive will be reduced. In addition, the timing and extent of a recovery of consumer behaviour and willingness to spend discretionary income on movie-going after the COVID-19 pandemic may also affect the box office revenue and hence the income of the Group.

4. Premium over recent market price is substantial

The Proposal is to be implemented at the Offer Price of HK$10.00 per Scheme Share in cash. The Offeror will not increase the Offer Price for the Proposal and does not reserve the right to do so. If the Proposal fails, the Offeror cannot in normal circumstances put forward another such proposal for at least twelve months, except with the consent of the Executive.

The premium of the Offer Price over recent Share prices is substantial. Based on the discussion as set out in the sub-section headed "III.8. Analysis of the Share price – (b) Historical Share price performance and NAV per Share compared to the Offer Price of HK$10.00 per Scheme Share" above, the Offer Price compares favourably to the closing Share prices, with a range of premium of approximately 25.3% to approximately 49.2% over different periods before the Last Full Trading Date.

The Offer Price is also higher than the closing Share prices in most of the trading days during the Share Price Review Period of over one and a half years, except briefly in early 2022 and early 2023. In the Pre-Announcement Period (1 January 2022 to 10 July 2023), the average closing price of the Shares was HK$7.98.

In the two years prior to the Pre-Announcement Period, the closing price of the Shares was consistently (except for two trading days) above the Offer Price of HK$10.00, with a high of HK$18.30 and a low of HK$9.67. Prior to this and since the Company's initial public offering in October 2015, the Share price had been higher still, based among other factors on the rapid growth of the PRC box office during this period and promotions by online ticketing platforms. Whether the Share Price can return to these earlier levels is unknown but we have summarised above various risk factors. These include the timing and the extent of a recovery of consumer behaviour and willingness to spend discretionary income on movie-going, the slower-than-expected PRC economic growth and consumer spending in the first half of 2023, the slower revenue growth of the Group in recent years (from 2015 to 2019) as compared to the overall market as well as the uncertainty of the permitted release of Hollywood films under the heightened US-China tensions. The low level of public float and trading volume, as noted below, may also have acted as a dampener on prices. In view of the above factors, we consider the higher Share prices prior to the Pre-Announcement Period do not reflect present circumstances or risks and are not of material relevance to our analysis.

Since the Last Trading Date (i.e., 11 July 2023), the closing prices of the Shares have reflected a small discount to the Offer Price of HK$10.00 per Share. On the Latest Practicable Date, the closing price was HK$9.51, a 5.2% discount to the Offer Price. In our view, the market prices of the Shares price the Last Trading Date have been largely driven by the Offer Price and if the Proposal fails the Share price is likely to exhibit weakness, at least in the short term.

5. The Scheme presents a good opportunity to realise the Shares given the low trading volume

Since the beginning of 2022 and up to the release of the Announcement, we are of the view that the liquidity of the Shares was generally low, with monthly trading volume averaging 2.2% and 7.9% of Shares in issue and Shares held by the Disinterested Shareholders, respectively. There was a surge in trading volume during November 2022 to January 2023 which may be attributable to expectations (since somewhat dampened) for the Group's business amid the announcement of significant easing of COVID-19 control measures by the Chinese government. The surge in July 2023 was due, in our opinion, to the release of the Announcement. Otherwise, we are of the view that the Shares cannot be regarded as having been actively traded on a consistent basis. The reasons for the low liquidity include: (i) lower investor interest over the past few years due to COVID-impacted theatre closure and reduced market capitalisation of the Company; (ii) total share repurchases of approximately 21.1 million from 2018-2022 reduced the public float; (iii) the Shares being removed from trading in Shanghai Stock Connect (10 September 2018) and Shenzhen Stock Connect (15 March 2021) due to minimum market capitalisation thresholds; and (iv) fewer analyst coverage, being 3 currently compared to over 10 in pre-COVID period. Accordingly, the Proposal provides an attractive exit opportunity for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

6. Premium over net assets

The Offer Price represents a premium in the region of approximately 88.0% over the audited NAV per Share as at 31 December 2022 and approximately 86.1% over the unaudited NAV per Share as at 30 June 2023. We consider this a substantial premium.

7. Cross check against the Comparable Companies

The Offer Price of HK$10.00 per Scheme Share represents a P/E Multiple of 18.4 times, which is higher than both the average and the median of the seven Comparable Companies of approximately 16.7 times and 10.9 times, based on profits in the latest twelve-month period and closing prices as at the Latest Practicable Date for the Comparable Companies. Similarly, the implied P/B Multiple of the Offer Price of approximately 1.9 times is higher than the average and the median of those of the seven Comparable Companies of approximately 1.0 times and approximately 0.9 times, respectively, as at the Latest Practicable Date. The implied EV/EBITDA Multiple is equal to the median of the seven Comparable Companies and well within the range of those of the Comparable Companies. These multiples indicate that the Offer Price compares favourably against the ratings of the Comparable Companies in general.

8. Cross check against the Privatisation Precedents

The premiums offered by the Offer Price over the closing Share price on the Last Full Trading Date and the 10-, 30-, 60-, 90- and 120-trading day (up to and including the Last Full Trading Date) average closing Share price are 39.5%, 44.6%, 49.2%, 43.6%, 34.8% and 25.3%, respectively. These premiums are close to the respective median premiums of the Privatisation Precedents and well within the range of the premiums of the Privatisation Precedents. This indicates that the terms of the Proposal are in line with recent successful privatisation proposals of Hong Kong listed companies.

V. SHARE INCENTIVE PROPOSAL

1. LTIP Option Offer

Under the LTIP Option Offer, the Offeror is offering the LTIP Option Holder a "see-through" price of HK$0.8147 per LTIP Option (being the Offer Price minus the exercise price per LTIP Option) for the cancellation of each LTIP Option.

In Hong Kong, it is market practice to adopt a "see-through" price (representing the difference between the Offer Price and any given exercise price of the option instrument) as the minimum offer/cancellation price for any such instrument in conjunction with a privatisation. We note that under the LTIP Option Offer, the LTIP Option Offer price of HK$0.8147 for each outstanding LTIP Option represents the difference between the Offer Price of HK$10.00 and the exercise price of the outstanding LTIP Options of approximately HK$9.1853. We consider such basis of determining the LTIP Option Offer price is acceptable.

2. Share Option Offer

Under the Share Option Offer, the Offeror is offering the Share Option Holders a nominal value of US$0.0001 per Share Option (equivalent to HK$0.0008 per Share Option) for the cancellation of each Share Option, as the exercise price of each Share Option exceeds the Offer Price and the "see-through" price is negative.

As with the LTIP Option Offer, it is market practice to adopt a "see-through" price as the minimum offer/cancellation price for any option instrument in conjunction with a privatisation. Under the Share Option Offer, the Share Option Offer price of HK$0.0008 for each outstanding Share Option is a nominal amount since the exercise price of each Share Option exceeds the Offer Price and the "see-through" price of the outstanding Share Options under the Share Option Offer is negative. We consider such basis of determining the Share Option Offer price is acceptable.

3. Share Award Offer

The Offeror is implementing the arrangements set out in detail in the sub-section headed "4. Share Incentive Proposal – Share Award Offer" in the Explanatory Memorandum contained in the Scheme Document, to the effect that (i) the RSU Holders will receive Offeror RSUs for the cancellation of all of the RSUs held by them; and (ii) the PSU Holders will receive Offeror PSUs for the cancellation of all of the PSUs held by them, with the vesting of such Offeror RSUs and Offeror PSUs being consistent with the original vesting schedules and the original vesting conditions applicable to the corresponding RSUs and PSUs.

As mentioned in the sub-section headed "II. Terms and conditions of the Proposal, the Scheme and the Share Incentive Proposal – 2. The Share Incentive Proposal – (c) Share Award Offer" in this letter, under the rules of the RSU Scheme and the PSU Scheme, there is no automatic acceleration or cancellation of unvested RSUs and PSUs triggered by a takeover or scheme of arrangement of the Company. The unvested RSUs and PSUs will therefore not be accelerated for vesting as a result of the Proposal. Any RSU Holder or PSU Holder who does not accept the Share Award Offer will not receive any Offeror RSUs or Offeror PSUs (as the case may be) under the Share Award Offer in respect of his/her outstanding RSUs and PSUs as at the Record Date. The Board will then exercise its discretion to cancel such RSUs and PSUs for nil consideration in accordance with the terms and conditions of the RSU Scheme and PSU Scheme.

Having considered this background and the fact that the Shares will no longer be liquid post-privatisation of the Company, we are of the view that the Share Award Offer, which allows the relevant RSU Holder and/or PSU Holder to receive the Offeror RSUs and/or the Offeror PSU which, upon vesting, will be settled with marketable and liquid shares in the Offeror (listed on the New York Stock Exchange), is fair and reasonable so far as the RSU Holder and/or PSU Holder are concerned.

VI. OPINION AND RECOMMENDATION

Based on the above analysis, in particular those factors in the "IV. Discussion and Analysis" section above, we consider (i) the terms of the Proposal and the Scheme to be fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the terms of the Share Incentive Proposal to be fair and reasonable so far as the Share Incentive Holders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the Scheme at the Court Meeting and the resolutions in connection with the implementation of the Proposal at the EGM.

We also advise the Independent Board Committee to recommend (i) the LTIP Option Holder to accept the LTIP Option Offer; (ii) the Share Option Holders to accept the Share Option Offer; and (iii) the holders of the RSU and/or PSU to accept the Share Award Offer.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Danny Cheng
Director

Mr. Danny Cheng is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, who is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 15 years of experience in the corporate finance industry.