IMAX CHINA HOLDING, INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1970)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018,

FINAL DIVIDEND ANNOUNCEMENT

AND

INSIDE INFORMATION OUR CONTROLLING SHAREHOLDER IMAX CORPORATION RELEASED ITS FOURTH QUARTER AND FULL YEAR 2018 FINANCIAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors of IMAX China Holding, Inc. (the "**Company**" or "**IMAX China**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 as follows.

FINAL DIVIDEND ANNOUNCEMENT

The Board of Directors of the Company is pleased to announce its recommendation of a final dividend of US$0.02 per share (equivalent to approximately HK$0.157 per share) to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect to the book closure date, record date and payment date, the proposed 2018 final dividend is expected to be distributed to shareholders on or around 31 May 2019. There will be no scrip dividend option for the 2018 final dividend.

INSIDE INFORMATION

This is an announcement made pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Our controlling shareholder, IMAX Corporation has, on or about 26 February 2019 (approximately 4:15 p.m., New York time), announced its fourth quarter and year ended 31 December 2018 financial results and on or about 26 February 2019 (approximately 5:00 p.m., New York time), released its annual report and results for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

	2018	2017
Total revenue (US$'000)[1]	**117,520**	126,474
Gross profit (US$'000)	**75,251**	77,358
Gross profit %	**64.0%**	61.2%
Profit for the year (US$'000)	**42,765**	43,713
Profit for the year %	**36.4%**	34.6%
Profit per share (US$)	**0.12**	0.12
Adjusted profit (US$'000)	**44,283**	45,949
Adjusted profit %	**37.7%**	36.3%
Selling, general and administrative expenses(US$'000)	**(16,105)**	(14,530)
Adjusted EBITDA(US$'000)	**65,016**	67,019
Adjusted EBITDA %	**55.3%**	53.0%
Total theater system signings	**60**	95
Sales and sales-type lease arrangements	**30**	55
Revenue sharing arrangements	**30**	40
Total theater system installations	**101**	120
Sales and sales-type lease arrangements	**27**	41
Revenue sharing arrangements	**70**	79
Upgrades	**4**	—
Gross box office (US$'000)	**336,633**	290,819
Box office per screen (US$'000)	**616**	666

Note:

(1) IFRS adjustment in FY2018 resulted in a reduction of US$3.6 million and US$4.6 million to revenues and cost of sales respectively.

2019 OUTLOOK

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

LETTER TO SHAREHOLDERS

Dear Shareholders,

I'm delighted to present you with IMAX China's 2018 annual results.

Looking back, 2018 was a pivotal year for the Company and we believe our achievements have set the stage for IMAX China to have a blockbuster year in 2019.

Our mission was simple: enhance all aspects of our core business. We committed to increasing the differentiation of The IMAX Experience®, more effectively marketing the IMAX® brand in China and further refining our programming strategy. As evidenced by our record box office year in 2018 and fantastic start to 2019, it is clear that these efforts have already begun paying dividends.

A few of the many milestones we achieved last year, include:

- Record IMAX box office of $337 million, up 16% compared to 2017, which doubled the industry growth rate.

- We broke box office records in the fourth quarter with the release of Aquaman, which opened to a record $10 million in IMAX® theatres.

- The launch of our new IMAX® with Laser experience, which further differentiates The IMAX Experience from other options available to consumers — to date, we have already signed agreements for 20 systems.

- The launch of our new brand campaign which seeks to better articulate to consumers, "Why IMAX?"

- We began working more closely with online ticketing platforms, where 85% of tickets in China are sold.

- We programmed more Chinese language blockbusters, which accounted for 30% of our total PRC box office, up from 24% in 2017.

- We introduced new partners into the IMAX family, such as the exhibition company of China Resources Land, one of the largest state-owned real estate developers in China

Overall, we think our efforts last year enable us to capitalize on what is shaping up to be a blockbuster 2019.

I am pleased to note, we have hit the ground running in 2019. During the recent the 2019 Chinese New Year holiday, IMAX box office increased 40% compared to the 2018 holiday period, whereas the industry was flat year-over-year. Year-to-date, our box office is up 61% compared to last year. The most significant driving force of our robust performance was the hit film, *The Wandering Earth*, which is now the highest grossing IMAX film of all time in China, eclipsing *Avengers: Infinity War*. To date, this film delivered $45 million of IMAX box office. Equally as impressive was our market share. On the 2019 Chinese New Year day, we indexed 11% of the film's box office, and to date we indexed approximately 8% of the film's total box office in China, notwithstanding IMAX only accounting for roughly 1% of the total screens in China. While these numbers are impressive on their own, the more important takeaway is that this film is viewed as one of the first high-quality science-fiction Chinese films and will likely lead to additional films of this scale and production value.

Taking a step back, the reason IMAX tends to outperform on global blockbusters such as *The Wandering Earth* and *Aquaman* lies in our differentiated experience, an experience you can only get in IMAX theatres. This experience has continuously improved over our 50-plus year history and last year we made it even better, with the launch of our new IMAX with Laser experience. The benefits of the experience are clear: brighter and more vivid images coupled with a more immersive sound experience. In essence, it takes The IMAX Experience to the next level. Since being made available in China late last year, we have signed 20 systems and have installed 11 systems including upgrades. We are thrilled with the early reactions from our partners and look forward to continuing to roll out this experience across China.

The next area we have spent a lot of time on recently is marketing. As we continue to increase the differentiation of our experience, it is becoming increasingly important that we effectively show consumers the benefits of seeing their favorite blockbusters in IMAX and more effectively answer the question, "Why IMAX?" Our new brand campaign launched in July 2018 and has since been adopted by major studios including Disney and Warner Brothers, who embraced our new brand efforts to help market several of their tentpole titles last year both within and outside China.

We launched our new marketing campaign in conjunction with a broader effort to more strategically partner with the key ticketing platforms, through which 85% of movie tickets in China are sold. Improving our positioning on these platforms is important and represents a significant opportunity for us to improve IMAX's positioning at the point-of-sale and throughout the distribution process for local and Hollywood films. While there is still work to be done, we are encouraged with our progress and believe our recent box office performance is in part, a result of our marketing refinements.

In February we invested $15 million, becoming a cornerstone investor in Maoyan' s recent IPO. Maoyan is the largest ticketing platform in China, accounting for roughly 60% of all movie tickets sold in the country. This investment illustrates the conviction we have in the power of their business in driving consumers to cinemas, as well as the overall consumer-entertainment market in China.

Overall, our achievements in 2018 better enable us to capitalize on the exciting years ahead — starting with our optimistic outlook for 2019. We further differentiated our technology, increased the awareness of the IMAX brand, fine-tuned our programming strategy, and forged new partnerships with various strategic stakeholders. Our strong balance sheet and cash flow from operations have provided opportunities to pursue such strategic core business initiatives while at the same time returning over $27 million of capital in 2018 to shareholders via dividends and share buybacks.

I am encouraged by our strong performance last year and believe the major developments I mentioned above will continue to drive more box office dollars through our network and increase the earnings power of our business. Finally, I would like to take this opportunity to express my utmost gratitude to our employees, shareholders and business partners for their continued support of IMAX China.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

	Notes	Years Ended 31 December 2018	2017
Revenues	*4*	**117,520**	126,474
Cost of sales		**(42,269)**	(49,116)
Gross profit	*4*	**75,251**	77,358
Selling, general and administrative expenses		**(16,105)**	(14,530)
Restructuring expenses and associated impairments		**(112)**	(636)
Other operating expenses		**(6,702)**	(7,087)
Operating profit		**52,332**	55,105
Interest income		**1,622**	725
Profit before income tax		**53,954**	55,830
Income tax expense	*5*	**(11,189)**	(12,117)
Profit for the year, attributable to owners of the Company		**42,765**	43,713
Other comprehensive (loss) income:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		**(8,273)**	8,333
Items that may not be subsequently reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income (“**FVOCI**”)		**(2,018)**	—
Other comprehensive (loss) income:		**(10,291)**	8,333
Total comprehensive income for the year, attributable to owners of the Company		**32,474**	52,046
Profit per share attributable to owners of the Company — basic and diluted (expressed in U.S. dollars per share):			
From profit for the year — basic	*6*	**0.12**	0.12
From profit for the year — diluted	*6*	**0.12**	0.12

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of U.S. dollars)

		As at 31 December	
	Notes	**2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment		**98,471**	88,620
Other assets		**6,759**	4,403
Deferred income tax asset	*7*	**2,928**	3,291
Financing receivables	*8*	**42,000**	39,319
Interests in a joint venture		**—**	—
		150,158	135,633
Current assets			
Other assets		**2,405**	2,960
Film assets		**221**	—
Inventories		**3,434**	5,612
Prepayments		**3,399**	1,971
Financing receivables	*8*	**8,785**	8,450
Trade and other receivables	*9*	**40,717**	53,995
Cash and cash equivalents		**120,224**	116,678
		179,185	189,666
Total assets		**329,343**	325,299
LIABILITIES			
Non-current liabilities			
Deferred revenue		**23,646**	23,876
		23,646	23,876
Current liabilities			
Trade and other payables	*10*	**18,395**	18,522
Accruals and other liabilities		**8,838**	10,161
Income tax liabilities		**6,334**	4,458
Deferred revenue		**18,453**	23,545
		52,020	56,686
Total liabilities		**75,666**	80,562

	Notes	As at 31 December 2018	2017
EQUITY			
Equity attributable to owners of the Company			
Share capital		**36**	36
Share premium and reserves		**307,865**	343,788
Accumulated deficit		**(54,224)**	(99,087)
Total equity		**253,677**	244,737
Total equity and liabilities		**329,343**	325,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. General information

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

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

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

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

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

2. Basis of preparation

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Except as described in note 3 below for the adoption of new accounting standards effective for the current year, the accounting policies are consistently applied to all the periods presented.

3. New accounting standards and accounting changes

New standards, amendments and interpretations that are effective for the current year

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- *IFRS 9 Financial Instruments ("IFRS 9")*
- *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

3.1 Impact on the financial information

As explained in note 3.2 and 3.3 below, IFRS 9 and IFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the Group's accounting policies, certain reclassifications and adjustments are therefore not reflected in the restated consolidated statement of financial position as at 31 December 2017, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Consolidated statement of financial position (extract)	**31 December 2017 As originally presented**	**IFRS 9** *(Note 3.2)*	**IFRS 15** *(Note 3.3)*	**1 January 2018 Restated**
Non-current assets				
Other assets — Financial assets at FVOCI	4,106	—	—	4,106
Deferred income tax asset	3,291	—	(763)	2,528
Other assets — Variable consideration receivables	403	—	2,861	3,264
Equity				
Accumulated deficit	(99,087)	—	2,098	(96,989)

Consolidated statement of comprehensive income (extract) — year ended 31 December 2018	**Pre-adoption**	**IFRS 9** *(Note 3.2)*	**IFRS 15** *(Note 3.3)*	**As reported**
Revenue	121,082	—	(3,562)	117,520
Cost of sales	(46,819)	—	4,550	(42,269)

The other newly adopted standards or amendments that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2018 do not have significant impacts on the Group's consolidated financial statements.

3.2 Adoption of IFRS 9 "Financial Instruments"

IFRS 9, "Financial instruments", addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The adoption of IFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 measurement categories including those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and those to be measured at amortised cost.

The Group's financial assets include cash and cash equivalents, trade and other receivables, net investment in finance leases, net financed sales receivable and preferred share investment.

Reclassification from available-for-sale to financial asset at FVOCI

In 2014, the Group purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of $4.0 million. IMAX (Hong Kong) Holdings, Limited is a wholly owned subsidiary of IMAX Corporation and holds an investment in a joint venture. The agreement's key terms, which will be fully defined in the agreement, provide the Group with right to dividends and other distributions, redemption rights should IMAX Corporation sell all or part of its interest in the investment and the right to nominate one representative to the Board of Directors.

In 2017, the Group entered into a subscription agreement to invest in IMAX Virtual Reality Fund (the "VR Fund") with the total committed subscription amount of $5.0 million representing 19.5% interests of the VR Fund. The VR Fund was established by IMAX Corporation to help finance the creation of interactive VR content experiences for use across all VR platforms. As of 31 December 2017, the total investment amounted to $106,000. During 2018, the Group subscribed additional amount of $873,000 in the VR Fund.

These two investments were classified as available-for-sale investments under previous standard IAS 39. With the adoption of IFRS 9, these investments do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Therefore, these equity investments are classified as financial assets measured at fair value and the Group elected to present any changes in the fair value in other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

As a result of the adoption of IFRS 9, the above preferred share investment has been fair valued as at 1 January 2018 with reference to the valuation conducted by an independent external valuer or management. There was no significant difference between the fair value and carrying amount of these investments as at 1 January 2018, and therefore no adjustment was recorded to opening equity.

Other than that, there were no changes to the classification and measurement of financial instruments.

Summary of effects resulting from adoption of IFRS 9 is as follows:

	IAS 39		**IFRS 9**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets				
Investment in preferred share	Available-for-sale investment stated at cost	4,000	FVOCI	4,000
Investment in a virtual reality fund	Available-for-sale investment stated at cost	106	FVOCI	106

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Group has three types of financial assets measured at amortised cost that are subject to IFRS 9's new expected credit loss model:

- Financing receivables
- Trade and other receivables
- Variable consideration receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, financing receivables and variable consideration receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group established expected credit losses model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on financial assets is insignificant as at 1 January 2018.

3.3 Adoption of IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

The Group's arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index adjustment on renewal each year. Under the new standard, the Group has included the future consideration from the provision of maintenance services in the relative selling price calculation at revenue recognition. The amount allocated to maintenance services is deferred and recognised over the full life of the arrangement. As the maintenance services are a stand ready obligation revenue is recognised evenly over time, which is consistent with past treatment. Under the previous recognition standard, only the first year's extended warranty and maintenance services included as part of the upfront consideration received by the Group was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognised and amortised over each year's renewal term. There's no significant change in the allocation of consideration between performance obligations to arise as a result of this change.

The recognition of variable consideration involves a significant amount of judgment. IFRS 15 requires variable consideration to be recognised subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity's influence

- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time

- The Group's experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value

- The Group has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances

The Group recorded an increase to opening retained earnings of $2.1 million, net of tax, as of 1 January 2018 due to the cumulative impact of adopting IFRS 15, with the impact primarily related to revenue from its theatre system business. The impact to revenues as a result of applying IFRS 15 was an increase of $1.0 million for the year ended 31 December 2018.

Revenues from IMAX DMR films are recognised when box office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured. The Group is entitled to receive a certain percentage of box office for IMAX format films from IMAX Corporation or local studios. DMR services are performed by IMAX Corporation and are based on master distribution and DMR services agreements. Depending on each type of films such as 2D, 3D or others, DMR costs are charged to the Group based on an agreed upon flat-fee for Hollywood films. For films produced by local studios, DMR services are purchased on a cost-plus basis. For films produced by local studios, DMR revenue applies the variable consideration exemption for sales or usage-based royalties. While the Group does not hold rights to the intellectual property in the form of the film content, the Group is receiving revenue for the application of IMAX intellectual property used in the DMR process of creating IMAX DMR version of film. For films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation. As a result of the adoption of IFRS 15, both DMR revenue from IMAX Corporation and DMR conversion costs to IMAX Corporation for imported films were reduced by $4.6 million for the year ended 31 December 2018.

The Group's remaining revenue streams are not significantly impacted by the new standard. As the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial information.

IFRS 16 "Leases"

On 13 January 2016, the International Accounting Standards Board (IASB) published a new standard for the accounting of leases, International Financial Reporting Standard 16 — Leases ("IFRS 16"). It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The Group is a lessee of various offices, warehouses and apartments which are currently classified as operating leases. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the consolidated statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the consolidated statement of comprehensive income, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. This will lead to an improvement in EBITDA.

As a lessor, the Group has a significant portion of its revenue derived from leases and while the lessor accounting model is not fundamentally different, the Group continues to evaluate the effect of the standard on this revenue stream.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The Group considers that the impact of adopting this lease standard is insignificant.

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

4. Segment information

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

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

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

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

Transactions between the other segments are not significant.

(a) Operating segments

	Years Ended 31 December	
	2018	2017
Revenue		
Network business		
Film	**26,059**	27,436
Revenue sharing arrangements — contingent rent	**21,619**	18,748
Sales and sales-type lease arrangements — contingent rent	**—**	430
	47,678	46,614
Theatre business		
Sales and sales-type lease arrangements	**42,455**	56,220
Revenue sharing arrangements — upfront fees	**6,604**	6,788
Theatre system maintenance	**19,224**	15,082
Other theatre	**1,316**	1,560
	69,599	79,650
New business and other	**243**	210
Total	**117,520**	126,474

	Years Ended 31 December	
	2018	2017
Gross profit		
Network business		
Film	**21,169**	18,354
Revenue sharing arrangements — contingent rent	**9,806**	7,248
Sales and sales-type lease arrangements — contingent rent	**—**	430
	30,975	26,032
Theatre Business		
Sales and sales-type lease arrangements	**28,962**	40,452
Revenue sharing arrangements — upfront fees	**1,845**	1,277
Theatre system maintenance	**12,822**	9,430
Other theatre	**585**	477
	44,214	51,636
New business and other	**62**	(310)
Total gross profit	**75,251**	77,358
Selling, general and administrative expenses	**(16,105)**	(14,530)
Restructuring expenses and associated impairments	**(112)**	(636)
Other operating expenses	**(6,702)**	(7,087)
Interest income	**1,622**	725
Profit before income tax	**53,954**	55,830

The Group's operating assets and liabilities are located in Greater China. All revenue earned by the Group is generated by the activity of IMAX theatres operating in Greater China.

Significant Customers

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

Customer A

Revenues of approximately $26.9 million in 2018 (2017: $22.5 million) are derived from a single external customer. These revenues are attributable to revenue sharing arrangements, theatre system maintenance, sales arrangements, film and other segments.

Customer B

Revenues of approximately $21.0 million in 2018 (2017: $18.7 million) are derived from a related party. These revenues are attributable to the film, theatre system maintenance and other segments.

No other single customers comprises of more than 10% of total revenues in 2018 or 2017.

Supplemental Information

(b) Depreciation and amortisation

	Years Ended 31 December	
	2018	2017
Theatre system maintenance	**173**	162
Revenue sharing arrangements	**9,955**	8,203
Film business	**1,320**	7,167
New business and other	**72**	44
Corporate and other non-segment specific assets	**562**	639
Total	**12,082**	16,215

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

	Years Ended 31 December	
	2018	2017
Revenue sharing arrangements	**302**	562
Corporate and other non-segment specific assets	**15**	137
Total	**317**	699

5. Income tax expense

	Years Ended 31 December	
	2018	2017
Current income tax:		
Current tax on profits for the year	**(11,993)**	(13,473)
Adjustments in respect of prior years	**280**	36
Total current income tax	**(11,713)**	(13,437)
Deferred income tax		
Origination and reversal of temporary differences	**524**	1,320
Total deferred income tax	**524**	1,320
Income tax expense	**(11,189)**	(12,117)

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

	Years Ended 31 December	
	2018	2017
Profit before tax	**53,954**	55,830
Tax calculated at domestic tax rates applicable to profits in all respective countries	**(11,820)**	(12,335)
Tax effects of:		
Income not subject to tax	**915**	776
Expenses not deductible for tax purposes	**(85)**	(176)
Withholding taxes	**(282)**	(445)
Other	**(197)**	27
Adjustment in respect of prior years	**280**	36
Tax charge	**(11,189)**	(12,117)

The applicable tax rate reflects the impact of the income tax refund of $1.4 million for the year ended 31 December 2018 (2017: $1.4 million). For the year ended 31 December 2018, the weighted average applicable tax rate was 20.7% (2017: 21.7%). The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

6. Profit per share

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

	Years Ended 31 December	
	2018	2017
Profit for the year	**42,765**	43,713
Weighted average number of common shares (in ’000s):		
Issued and outstanding, beginning of year	**358,125**	356,565
Weighted average number of shares increased during the year	**173**	202
Weighted average number of shares used in computing basic earnings per share	**358,298**	356,767
Adjustments for:		
Stock options	**2,927**	4,624
Restricted share units	**322**	116
Weighted average number of shares used in computing diluted earnings per share	**361,547**	361,507

7. Deferred income tax

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

	Fixed assets, inventory and other property	Share-based compensation	Accrued reserves	Others	Total
As at 1 January 2017	75	1,060	695	—	1,830
Credited to profit or loss	25	412	883	—	1,320
Exchange difference	4	88	49	—	141
As at 31 December 2017	104	1,560	1,627	—	3,291
Adjustment on adoption of IFRS 15 (see note 3.1)	—	—	—	(763)	(763)
As at 1 January 2018	104	1,560	1,627	(763)	2,528
Credited (charged) to profit or loss	5	(205)	625	99	524
Exchange difference	(5)	(65)	(42)	(12)	(124)
As at 31 December 2018	104	1,290	2,210	(676)	2,928

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

No deferred income tax liability has been provided for the People's Republic of China ("PRC") withholding tax that would be payable on the unremitted earnings totalling $165.4 million at 31 December 2018 (2017: $129.0) million. Such earnings are expected to be retained by the PRC subsidiaries and not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

8. Financing receivables

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

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

	As at 31 December	
	2018	2017
Gross minimum finance lease payments receivable	**3,703**	403
Unearned finance income	**(15)**	(28)
Minimum finance lease payments receivable	**3,688**	375
Accumulated allowance for uncollectible amounts	**—**	—
Net investment in finance leases	**3,688**	375
Gross financed sales receivables	**61,536**	62,906
Unearned finance income	**(14,439)**	(15,512)
Financed sales receivables	**47,097**	47,394
Accumulated allowance for uncollectible amounts	**—**	—
Net financed sales receivables	**47,097**	47,394
Total financing receivables	**50,785**	47,769

	As at 31 December 2018	2017
Gross investment in finance leases may be analysed as follows:		
No later than one year	**461**	117
Later than one year and no later than five years	**1,579**	286
Later than five years	**1,663**	—
Total gross investment in finance leases	**3,703**	403
Gross financed sales receivables may be analysed as follows:		
No later than one year	**11,708**	11,778
Later than one year and no later than five years	**31,017**	30,408
Later than five years	**18,811**	20,720
Total financed sales receivables	**61,536**	62,906
Net investment in finance leases may be analysed as follows:		
No later than one year	**453**	105
Later than one year and no later than five years	**1,572**	270
Later than five years	**1,663**	—
Total net investment in finance leases	**3,688**	375
Net financed sales receivables may be analysed as follows:		
No later than one year	**8,332**	8,345
Later than one year and no later than five years	**22,293**	21,212
Later than five years	**16,472**	17,837
Total net financed sales receivables	**47,097**	47,394

As at 31 December 2018, the financed sales receivables had a weighted average effective interest rate of 8.4% (2017: 8.6%).

Contingent rents that meet the Group's revenue recognition policy, from customers under financing arrangements, were $nil for the year ended 31 December 2018 (2017: $0.2 million).

As at 31 December 2018, 99% (2017: 99%) of the Group's financing receivables were in good standing.

9. Trade and other receivables

	As at 31 December	
	2018	2017
Trade receivables	**21,903**	31,438
Less: provision for impairment of trade receivables	**(404)**	(321)
Trade receivables — net	**21,499**	31,117
Receivables from IMAX Corporation	**13,427**	16,448
Loan and interest receivables from a joint venture	**509**	2,806
Less: provision for impairment of loan and interest receivable	**(207)**	—
Loan and interest receivable from a joint venture — net	**302**	2,806
Other accrued receivables	**5,489**	3,624
	40,717	53,995

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

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

	As at 31 December	
	2018	2017
0–30 days	**8,494**	7,848
31–60 days	**2,788**	3,642
61–90 days	**1,950**	4,797
Over 90 days	**22,098**	31,599
	35,330	47,886

As at 31 December 2018, trade receivables of $35.3 million (2017: $47.9 million) were fully performing.

As at 31 December 2018, trade receivables of $21.7 million (2017: $31.3 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and from whom the Company, based on past experience, believes the overdue amounts can be recovered, as well as related party receivables. The aging analysis of these trade receivables, including receivables from IMAX Corporation, is as follows:

	As at 31 December	
	2018	2017
Over 90 days	**21,694**	31,278

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

	As at 31 December	
	2018	2017
Over 90 days	**611**	321

At 31 December 2018, 28% (2017: 19%) of the Group's over 90 days trade and other receivables balance relates to receivables aged over one year, 53% (2017: 53%) of which do not bear interest, have no fixed repayment terms and are due on demand from IMAX Corporation.

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

	As at 31 December	
	2018	2017
US$	**8,556**	9,322
RMB	**32,089**	44,593
Other currencies	**72**	80
	40,717	53,995

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

	As at 31 December	
	2018	2017
As at 1 January	**321**	176
Provision for receivables impairment	**328**	146
Write-off	**(23)**	(1)
Exchange differences	**(15)**	—
As at 31 December	**611**	321

During the year ended 31 December 2018, the Group recorded a net provision of $0.3 million (2017: $0.1 million) related to trade receivables.

10. Trade and other payables

	As at 31 December	
	2018	2017
Trade payables	**2,094**	2,732
Other payables	**1,321**	1,134
Amounts due to IMAX Corporation	**14,980**	14,656
	18,395	18,522

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

	As at 31 December	
	2018	2017
0–30 days	**8,824**	8,015
31–60 days	**1,609**	2,264
61–90 days	**761**	925
Over 90 days	**7,201**	7,318
	18,395	18,522

As at 31 December 2018 and 2017, the carrying amounts of trade and other payables approximated their fair values due to short maturity. Trade and other payables over 90 days primarily consist of amounts due to IMAX Corporation.

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

	As at 31 December	
	2018	2017
RMB	**10,245**	11,032
US$	**7,969**	7,160
Other	**181**	330
	18,395	18,522

11. Dividends

	Years Ended 31 December	
	2018	2017
Dividends recognised as distribution during the year:		
2017 Final — HK$0.314 (2017: $nil) per share	**14,355**	—
2018 Interim — HK$0.157 (2017: $nil) per share	**7,175**	—
	21,530	—

As approved by the shareholders at the Annual General Meeting held on 3 May 2018, 2017 final dividend of $0.04 per share (equivalent to approximately HK$0.314 per share) was distributed to shareholders on 31 May 2018. As recommended by the Board, an interim dividend for the six months ended 30 June 2018, of $0.02 per share (equivalent to HK$0.157 per share), was distributed to shareholders on 31 August 2018. No dividends were declared or paid during the year ended 31 December 2017.

During the board meeting held on 26 February 2019, the Board recommended a final dividend of $0.02 per share (equivalent to approximately HK$0.157 per share) for the year ended 31 December 2018 to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect of the book closure date, record date and payment date, the proposed 2018 final dividend is expected to be distributed to shareholders on or around 31 May 2019. There will be no scrip dividend option for the 2018 final dividend. The proposed dividend has not been provided for in the consolidated financial statement for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

History and Introduction

The IMAX business commenced operations in the PRC in 1998, when IMAX Corporation started offering its theatre systems to museums and science centres. Over the years, the focus of the business has moved from institutional theatres to commercial theatres and, as at 31 December 2018, there were 639 IMAX theatres in Greater China, including 624 in commercial locations, and an additional 272 theatres in backlog. On 8 October 2015, the Company completed a Global Offering and the Company's Shares were listed on the Stock Exchange.

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

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

Network Business

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

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

Under film, we generate revenue by sharing in a certain percentage of IMAX box office received by our studio partners for the conversion and release of Hollywood and Chinese language films to the IMAX theatre network. This arrangement enables us to share in the box office success of a film while limiting our exposure to the significant capital investment required in making a film and the regulatory requirements governing the production and distribution of films in Greater China.

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

Under sales and sales-type lease arrangements, we typically require the payment of upfront and ongoing fees, which can include a fixed minimum amount per annum and contingent rent in excess of the minimum payments. The contingent rent including in our Network Business is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Prior to the adoption of the new revenue recognition standard, contingent payments in excess of fixed minimum ongoing payment of sales or sales-type lease arrangements were recognized as revenue when reported by theater operators, provided collectability was reasonably assured. In addition, contingent rent included amounts realized for changes in rent payments that were indexed to a local consumer price index. Effective 1 January 2018, upon adoption of the new revenue recognition standard, the recognition of contingent rent on an ongoing basis, as discussed above, will only continue for the Company's sales-type lease arrangements. Contingent rent on sales arrangements is estimated and recognized with the revenue in Theatre Business.

While we continue to generate the majority of our Network Business revenue from Hollywood films, we have increased our percentage of Chinese language box office year over year from 24.1% to 30.0% and intend to focus our efforts in further increasing this percentage to maximize overall box office. Chinese language films continue to improve and clearly resonate with local audiences, especially in lower tiered Chinese cities where we have seen significant expansion. We continue to incorporate a dual programming strategy whereby we program multiple Chinese language films within the same release window to take advantage of this changing dynamic and offer our partners more flexibility in programing. Our network expansion and long term partnerships with local studios and filmmakers have helped to facilitate the change in approach. To further strengthen our ties to local studios and filmmakers, and in furtherance of our commitment to grow our portfolio of Chinese language films, we remain committed to invest in a film fund (the "**China Film Fund**") together with an entity related to CMC Capital Partners ("**CMC**"). The purpose of the China Film Fund is to invest in tentpole Chinese language films.

Theatre Business

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

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

Under sales and sales-type lease arrangements, we typically charge a fixed upfront and annual minimum payments. Effective 1 January 2018, upon adoption of the new revenue recognition standard, the recognition of contingent rent on sales arrangements is estimated and recognized under Theatre business as well. Under hybrid revenue sharing arrangements, we will charge a relatively small upfront fee to our exhibitor partners. Theatre system maintenance includes an annual maintenance fee which include initial terms of 10 to 12 years in length plus renewal terms of 5 to 10 additional years. Under other theatre, we generate revenue from the aftermarket sales of 3D glasses, screen sheets, sounds, parts and other items.

New Business and Other

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

IMAX Technology

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

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

Since we launched IMAX with Laser, we have signed agreements with leading exhibitors such as Wanying Cinema Line, the subsidiary of China Resources Land, one of China's largest state-owned commercial developers, and Emperor Cinamas (Macau) Limited for a total of 20 IMAX theaters, which includes one upgrade.

Our Partnerships

We have strong and successful partnerships with a number of key players across the Greater China film industry. These include about 70 exhibitors, including the largest exhibitor in the world, Wanda Film (formerly Wanda Cinema), as well as other established market players such as CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.), Guangzhou Jinyi Media Corporation, Omnijoi Cinema Development Co., Ltd, Beijing Bona International Cineplex Investment and Management Co., Ltd., Shanghai Film Co. Ltd., and Guangdong Dadi Theatre Construction Co., Ltd. We have access to IMAX Corporation's exceptional Hollywood relationships that include long term film slate deals with Disney, Warner Brothers and 20th Century Fox. We also work with leading producers, directors and studios in Greater China, such as Huayi Brothers Media Corporation, Bona Film Group Limited, Wanda Media Co. Ltd., Edko (Beijing) Films Limited, Beijing Jingxi Culture & Tourism Co., Ltd and New Classics Media Corporation to convert Chinese language films into the IMAX format for release on the IMAX theatre network. In addition, we work with large commercial real estate developers, such as Wanda Plaza, China Resources and Longfor, to identify potential new IMAX theatre locations.

Our Competitive Strengths

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

- A strong entertainment brand in the large and fast-growing Greater China market;

- Strong slate of Hollywood films complemented by a growing portfolio of Chinese language films;

- Unparalleled network supported by about 70 exhibitor partnerships;

- Leading IMAX theatre system and technology delivering a unique cinematic experience;

- Significant value creation across the film industry for exhibitors, studios, filmmakers and commercial real estate developers; and

- Experienced management team supported by prominent shareholders.

Our Business Strategies

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

- Increasing the number of Chinese language films we release, per year and the percentage of annual box office we generate from these films;

- Strengthening our cooperation with PRC studios and filmmakers, including incorporation of IMAX DNA within local films such as using IMAX Cameras and expanded aspect ratios as done previously with certain Hollywood Films;

- Expanding the IMAX theatre network in the PRC which includes the rollout of our newly introduced IMAX with Laser technology;

- Increasing the number of strategic revenue sharing arrangements, that deliver acceptable returns, with our exhibitor partners;

- Maintaining our market leading position as a provider of a premium cinematic experience;

- Continuing to invest in the IMAX brand in Greater China; and

- Leveraging the IMAX brand to develop and invest in complementary businesses.

The management discussion and analysis is based on the Company's consolidated financial statements for FY2018 prepared in accordance with IFRS and must be read together with the consolidated financial statements and the notes which form an integral part of the consolidated financial statements.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Expansion of the IMAX Theatre Network in Greater China

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

Network Expansion

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

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

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

The number of IMAX theatres in Greater China increased from 544 IMAX theatres as at 31 December 2017 to 639 IMAX theatres as at 31 December 2018.

Backlog

Our ability to expand the IMAX theatre network is driven by our ability to sign new theatre agreements with exhibitor partners and replenish our backlog as theatres are installed. The installation of theatre systems in newly-built, and retrofitted, multiplexes depends primarily on the timing of the construction of these projects by exhibitors and/or commercial real estate developers, which is not under our control. Although revenue from our backlog is recognised following the installation of the relevant IMAX theatre systems and not at the time of signing, continuously replenishing our backlog is crucial to our long-term success as it underpins the continued growth of the IMAX theatre network. The number of IMAX theatre systems in our backlog decreased from 309 as at 31 December 2017 to 272 as at 31 December 2018, and the carrying value of our backlog increased from US$149.3 million as at 31 December 2017 to US$157.1 million as at 31 December 2018 due to a larger proportion of sales and sales-type lease arrangements. Approximately 28% of our backlog are sales and sales-type lease arrangements, 36% are full revenue sharing arrangements and 36% are hybrid revenue sharing arrangements.

As part of our strategy to expand the IMAX theatre network, we have mapped out a number of “IMAX zones” across Greater China. Each zone represents an area in which, based on our analysis, an exhibitor could potentially open an IMAX theatre without negatively affecting the business and financial results of the nearest IMAX theatre. We estimate each IMAX zone will typically only contain one IMAX theatre, subject to certain exceptions based on the location of the zone and any carve-outs in the agreements we entered with exhibitors. The number of zones may continue to grow as the population and/or consumer demand in a geographical area increases to a level where it becomes commercially viable for us to add an IMAX theatre and create a new IMAX zone without negatively affecting the business and financial performance of the nearest IMAX theatre. As at 31 December 2018, we had identified approximately 1,260 IMAX zones across Greater China.

We had installed IMAX theatres in 185 different cities in the PRC as at 31 December 2018. We plan to further penetrate major Tier 1 and Tier 2 cities by continuing to work with our exhibitor partners and commercial real estate developers to identify new zones for IMAX theatres. We also plan to continue our expansion of the IMAX theatre network in Tier 3, Tier 4 cities and below, markets that represent approximately US$5.3 billion in box office in 2018 for the industry, 9% increase over 2017, according to EntGroup Inc, an independent third-party consulting firm. Our network in the PRC currently includes 92 theatres in Tier 1 cities, 283 in Tier 2 cities, 129 in Tier 3 cities and 118 in Tier 4 cities and below.

Box Office Success of IMAX Films

Film Slate

Our financial performance is affected by the number of films released to the IMAX network in Greater China (known as the "slate") and the box office performance of those films. We source films produced by Hollywood and local studios and filmmakers and convert those films into the IMAX format using IMAX DMR conversion technology developed by IMAX Corporation. In FY2017 and FY2018, 44 and 45 IMAX films, respectively, were released and generated revenue for us in the PRC. IMAX Corporation has entered into contractual arrangements with filmmakers and studios in Hollywood to convert a number of films into the IMAX format for release in FY2019 and FY2020. However, while it is our intention that these films be released to the IMAX theatre network in the PRC, given the restrictions imposed by film quotas for Hollywood films in the PRC and censorship rules, we cannot assure you that these IMAX format Hollywood films will be made available.

Securing a slate of desirable Hollywood and Chinese language films in the IMAX format is critical to driving higher total box office and average box office per screen for IMAX theatres than non-IMAX theatres. The strength of the film slate we choose is also important to maintaining the ticket price premium that IMAX theatres typically command. We carefully select films for conversion into the IMAX format that we believe will be best received by local audiences, and then we work closely with the studios and filmmakers to enhance the viewing experience, which in addition to conversion into the IMAX format may include unique aspect ratios and utilisation of IMAX cameras for image capture. As a result, the average box office per screen for IMAX theatre is significantly higher than that of conventional theatres in the PRC. The average box office per screen of IMAX theatres in Greater China was US$0.62 million in FY2018 and this compares to average box office per screen of approximately US$0.15 million for all screens in the PRC for FY2018, according to EntGroup Inc. Higher average box office per screen for IMAX theatres make them more attractive to exhibitors, which enables us to grow the IMAX theatre network and generate revenue from new installations.

In addition, because the number of IMAX theatres under revenue sharing arrangements has grown considerably from 340 as at 31 December 2017 to 410 as at 31 December 2018, and because our backlog as at 31 December 2018 also included an additional 196 IMAX theatre systems under revenue sharing arrangements, strong box office performance of films will continue to weigh significantly on Network Business revenues as well as profit. While we mitigate box office highs and lows by employing a portfolio approach to our films in any given year, we believe that a key factor in the box office success of our films is not only selecting the right Hollywood and Chinese language films, but also ensuring the right balance of Hollywood and Chinese language films for our slate.

Film Release Date and Film Mix

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

Release dates for Hollywood films in the PRC generally have been set with a shorter lead times than in other markets. In addition, at certain times during the year, Chinese language films are released with less competition from Hollywood films. As a result, supplying IMAX theatres with Chinese language films in the IMAX format is important to ensure that there are IMAX films showing in IMAX theatres at all times, as well as to cater to local consumer demand for Chinese language films. Chinese language films have proven to be very successful at the box office. According to EntGroup Inc., as at 31 December 2018, 6 of the top 10 box office films in the PRC in calendar 2018 were Chinese language films. In 2018, the Chinese language films Operation Red Sea, Detective Chinatown 2, Dying to Survive, Hello Mr. Billionaire and Monster Hunt 2 were a part of the top 10 performing box office films for the Company. We also share a higher percentage of box office for Chinese language films compared to Hollywood films primarily due to Chinese studios retaining a much higher percentage of box office than Hollywood studios. Chinese language films make up a significant share of total PRC box office, amounting to 62.0% in FY2018 and 54.0% in FY2017, according to EntGroup Inc. IMAX format Chinese language films as a percentage of our PRC box office amounted to 30.0% in FY2018 and 24.1% in FY2017.

Proportion of Revenue Sharing Arrangements

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

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

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

Impact on Our Profitability

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

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

Revenue sharing arrangements increased from 340 arrangements in FY2017 to 410 arrangements in FY2018. As the level of our involvement and capital commitment is much greater with a revenue sharing arrangement, we can provide more input in the exhibitor's marketing campaigns for an IMAX film or an IMAX theatre launch. Going forward, we plan to continue to promote revenue sharing arrangements to exhibitors that can roll out their theatre network quickly and that have a portfolio of quality theatres with box office potential or a proven track record of success with IMAX theatres. Notwithstanding our interest in adding additional revenue sharing arrangements, our exhibitor partners may have other commercial considerations and may not choose revenue sharing arrangements over sales arrangements.

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

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

Economic growth and development had a significant impact on the entertainment industry in the PRC over the past few years, as individuals and households have been able to increase the amount of money they are willing to spend on movie tickets. We believe leisure consumption will be an important growth area in the coming decade for the Chinese consumer. Box office in the PRC grew to US$9.2 billion in 2018 at a compound annual growth rate (CAGR) of 25.0% from 2010 to 2018.

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

Competition

The China market faces a number of risks, including changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including the risk of an economic downturn or recession, trade embargoes, restrictions or other barriers, as well as other conditions that may impact the Company's exhibitor and studio partners, as well as consumer spending. Adverse developments in any of these areas could impact the Company's future revenues and cash flows and could cause the Company to fail to achieve anticipated growth.

Our Ability to Maintain Our Pricing and Profit Margins

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

Seasonality Effects

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

Currency Fluctuations

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

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

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

In FY2018, the Company adopted IFRS 15, "*Revenue from contracts with customers*" *(IFRS 15)* utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. As such, the current presentation of our segment is not consistent with the prior year.

Revenue

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

Network Business

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

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

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

- Sales and sales-type lease arrangements, consist of contingent rent in excess of certain fixed minimum ongoing payments. The contingent rent is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Prior to the adoption of *IFRS 15*, contingent payments in excess of fixed minimum ongoing payment of sales or sales-type lease arrangements are recognized as revenue when reported by theatre operators, provided collectability is reasonably assured. In addition, contingent rent includes amounts realized for changes in rent payments which are indexed to a local consumer price index. Effective 1 January, 2018, upon adoption of *IFRS 15*, the recognition of contingent rent on an ongoing basis, as discussed above, will only continue for the Company's sales-type lease arrangements. Contingent rent on sales arrangements is estimated and recognized with the revenue under Theatre Business.

Theatre Business

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

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

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

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

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

New Business and Other

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

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

	FY2018		FY2017	
	US$'000	***%***	*US$'000*	*%*
Network Business				
Film	**26,059**	**22.2%**	27,436	21.7%
Revenue sharing arrangements — contingent rent	**21,619**	**18.4%**	18,748	14.8%
Sales and sales-type lease arrangements — contingent rent	**—**	**—**	430	0.3%
Sub-total	**47,678**	**40.6%**	46,614	36.9%
Theatre Business				
Sales and sales-type lease arrangements	**42,455**	**36.1%**	56,220	44.5%
Revenue sharing arrangements — upfront fees	**6,604**	**5.6%**	6,788	5.4%
Theatre system maintenance	**19,224**	**16.4%**	15,082	11.9%
Other theatre	**1,316**	**1.1%**	1,560	1.2%
Sub-total	**69,599**	**59.2%**	79,650	63.0%
New Business and Other	**243**	**0.2%**	210	0.2%
Total(1)	**117,520**	**100.0%**	126,474	100.0%

Note:

(1) IFRS adjustment in FY2018 resulted in a reduction of US$3.6 million and US$4.6 million to revenues and cost of sales respectively

Cost of Sales

Our cost of sales are primarily comprised of the costs for the rights of all digital re-mastered films purchased under our intercompany agreement with IMAX Corporation (excluding Hollywood films which are recorded as a reduction of film revenue received from IMAX Corporation according to *IFRS 15* starting from 2018), the costs of IMAX theatre systems and related services under sales, sales-type lease and hybrid revenue sharing arrangements, depreciation of IMAX theatre systems capitalized under full revenue sharing arrangements and certain one-time costs at the time of system installation and exhibitor acceptance of the respective IMAX theatre system such as marketing costs for IMAX theatre launches, commissions and the cost for providing any maintenance service during a warranty period.

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

	FY2018		FY2017	
	US$'000	*%*	*US$'000*	*%*
Network Business				
Film	**4,890**	**18.8%**	9,082	33.1%
Revenue sharing arrangements — contingent rent	**11,813**	**54.6%**	11,500	61.3%
Sales and sales-type lease arrangements — contingent rent	**—**	**—**	—	—
Sub-total	**16,703**	**35.0%**	20,582	44.2%
Theatre Business				
Sales and sales-type lease arrangements	**13,493**	**31.8%**	15,768	28.0%
Revenue sharing arrangements — upfront fees	**4,759**	**72.1%**	5,511	81.2%
Theatre system maintenance	**6,402**	**33.3%**	5,652	37.5%
Other theatre	**731**	**55.5%**	1,083	69.4%
Sub-total	**25,385**	**36.5%**	28,014	35.2%
New Business and Other	**181**	**74.5%**	520	247.6%
Total[1]	**42,269**	**36.0%**	49,116	38.8%

Note:

(1) IFRS adjustment in FY2018 resulted in a reduction of US$3.6 million and US$4.6 million to revenues and cost of sales respectively

Gross Profit and Gross Profit Margin

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

	FY2018		FY2017	
	US$'000	***%***	*US$'000*	*%*
Network Business				
Film	**21,169**	**81.2%**	18,354	66.9%
Revenue sharing arrangements — contingent rent	**9,806**	**45.4%**	7,248	38.7%
Sales and sales-type lease arrangements — contingent rent	**—**	**—**	430	100.0%
Sub-total	**30,975**	**65.0%**	26,032	55.8%
Theatre Business				
Sales and sales-type lease arrangements	**28,962**	**68.2%**	40,452	72.0%
Revenue sharing arrangements — upfront fees	**1,845**	**27.9%**	1,277	18.8%
Theatre system maintenance	**12,822**	**66.7%**	9,430	62.5%
Other theatre	**585**	**44.5%**	477	30.6%
Sub-total	**44,214**	**63.5%**	51,636	64.8%
New Business and Other	**62**	**25.5%**	(310)	(147.6%)
Total[(1)]	**75,251**	**64.0%**	77,358	61.2%

Note:

(1) IFRS adjustment in FY2018 resulted in a reduction of US$3.6 million and US$4.6 million to revenues and cost of sales respectively. Margin % impact amounted to 260 basis points

Selling, General and Administrative Expenses

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

	FY2018		FY2017	
	US$'000	**%**	*US$'000*	%
Employee salaries and benefits	**5,397**	**4.6%**	5,468	4.3%
Share-based compensation expenses	**1,810**	**1.5%**	2,230	1.8%
Travel and transportation	**962**	**0.8%**	916	0.7%
Advertising and marketing	**2,061**	**1.8%**	1,118	0.9%
Professional fees	**2,307**	**2.0%**	1,981	1.6%
Other employee expense	**536**	**0.5%**	377	0.3%
Facilities	**1,366**	**1.2%**	1,414	1.1%
Depreciation	**691**	**0.6%**	764	0.6%
Foreign exchange	**104**	**0.1%**	(590)	(0.5%)
Other expenses	**871**	**0.6%**	852	0.7%
Total	**16,105**	**13.7%**	14,530	11.5%

Restructuring Expenses and Associated Impairments

In June 2017, the Company announced the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. And in December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close the VR location in Shanghai. Restructuring expenses and associated impairments are comprised of employee severance costs and contract termination costs and associated impairments for property, plant and equipment. Our restructuring expenses and associated impairments for FY2018 and FY2017 were US$0.1 million and US$0.6 million, respectively.

Other Operating Expenses

Other operating expenses primarily include the annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology Licence Agreements and the Trademark Licence Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for FY2018 and FY2017 were US$6.7 million and US$7.1 million, respectively.

Interest Income

Interest income represents interest earned on various term deposits and a related party short-term loan receivable we hold. None of the deposits had a term of more than 90 days. Our interest income for FY2018 and FY2017 was US$1.6 million and US$0.7 million, respectively.

Income Tax Expenses

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

Our income tax expense for FY2018 and FY2017 was US$11.2 million and US$12.1 million, respectively. Our effective tax rate was 20.7% and 21.7% during FY2018 and FY2017, respectively.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Consolidated Statement of Comprehensive Income

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

	FY2018		FY2017	
	US$'000	***%***	*US$'000*	*%*
Revenues[1]	**117,520**	**100.0%**	126,474	100.0%
Cost of sales[1]	**(42,269)**	**(36.0%)**	(49,116)	(38.8%)
Gross profit	**75,251**	**64.0%**	77,358	61.2%
Selling, general and administrative expenses	**(16,105)**	**(13.7%)**	(14,530)	(11.5%)
Restructuring expenses and associated impairments	**(112)**	**(0.1%)**	(636)	(0.5%)
Other operating expenses	**(6,702)**	**(5.7%)**	(7,087)	(5.6%)
Operating profit	**52,332**	**44.5%**	55,105	43.6%
Interest income	**1,622**	**1.4%**	725	0.6%
Profit before income tax	**53,954**	**45.9%**	55,830	44.1%
Income tax expense	**(11,189)**	**(9.5%)**	(12,117)	(9.7%)
Profit for the year, attributable to owners of the Company	**42,765**	**36.4%**	43,713	34.6%
Other comprehensive (loss) income:				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustments	**(8,273)**	**(7.0%)**	8,333	6.6%
Items that may not be subsequently reclassified to profit or loss:				
Change in fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	**(2,018)**	**(1.7%)**	—	—
Other comprehensive (loss) income:	**(10,291)**	**(8.8%)**	8,333	6.6%
Total comprehensive income for the year, attributable to owners of the Company	**32,474**	**27.6%**	52,046	41.2%

Note:

(1) IFRS adjustment in FY2018 resulted in a reduction of US$3.6 million and US$4.6 million to revenues and cost of sales respectively.

Adjusted Profit

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

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

	FY2018	FY2017
	US$'000	*US'000*
Profit for the year	**42,765**	43,713
Adjustments:		
Share-based compensation	**1,810**	2,230
Restructuring expenses and associated impairments	**112**	636
Tax impact on items listed above	**(404)**	(630)
Adjusted profit	**44,283**	45,949

FY2018 COMPARED WITH FY2017

Revenue

Our revenue decreased 7.1% from US$126.5 million in FY2017 to US$117.5 million in FY2018 driven by a decrease of US$10.1 million in our Theatre Business revenue and an increase of US$1.1 million in the Network Business revenue, as explained further below.

Prior to the adoption of the new revenue standard, our revenue would be US$121.1 million in FY2018, a decrease of 4.3%.

Network Business

Revenue from our Network Business increased 2.3% from US$46.6 million in FY2017 to US$47.7 million in FY2018, primarily due to a US$45.8 million, or 15.8% increase in box office revenue in FY2018 compared to the prior year. Prior to adoption of the new revenue standard, revenue from the Network Business would be US$52.2 million in FY2018, an increase of 12%.

Film

In accordance with *IFRS 15*, for films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not considered in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is netted against DMR revenue earned from IMAX Corporation. The impact of this change in accounting is film revenue and film costs were both reduced for imported films by $4.6 million for FY2018.

Film revenue decreased 5.0% from US$27.4 million in FY2017 to US$26.1 million in FY2018 as a result of an increase in box office revenue offset by the impact of *IFRS 15* mentioned above. Prior to adoption of the new revenue standard, film revenue would have increased 11.6% to US$30.6 million in FY2018. The box office revenue generated by IMAX films increased 15.8% from US$290.8 million in FY2017 to US$336.6 million in FY2018 as a result of the strong performance of the Company's film slate in FY2018, which included *Avengers: Infinity War*, along with *Aquaman, Operation Red Sea*, and *Ready Player One*. IMAX formatted Chinese language films, as a percentage of our PRC box office, increased from 24.1% in FY2017 to 30.0% in FY2018, and we share in a higher percentage of box office for Chinese language films (12.5%) compared to Hollywood films (9.5%).

Box office revenue per screen decreased 7.5% from US$0.67 million in FY2017 to US$0.62 million in FY2018 as a result of continued growth of the IMAX theatre network into lower tiered cities, overall industry screen growth and the time it takes for new theatre developments to mature. Our network increased by 17.5% from 544 IMAX theatres in FY2017 to 639 IMAX theatres in FY2018.

The following table sets out the number of films we released in the IMAX format in FY2018 and FY2017 in Greater China:

	FY2018	FY2017
Hollywood films	**26**	30
Hollywood films (Hong Kong and Taiwan only)	**12**	7
Chinese language films	**19**	14
Total IMAX films released	**57**	51

Revenue Sharing Arrangements — Contingent Rent

Contingent rent from revenue sharing arrangements increased 15.3% from US$18.7 million in FY2017 to US$21.6 million in FY2018, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in FY2018 compared to FY2017, which was partially offset by lower box office revenue per screen. We had 340 theatres operating under revenue sharing arrangements at the end of FY2017, as compared to 410 at the end of FY2018, which represented an increase of 20.6%.

Contingent rent from full revenue sharing arrangements increased 14.5% from US$15.4 million in FY2017 to US$17.6 million in FY2018, primarily due to growth in the full revenue sharing network in FY2018, which increased 21.5% year over year, from 260 IMAX theatres in FY2017 to 316 IMAX theatres in FY2018, while offset by lower box office revenue per screen.

Contingent rent from hybrid revenue sharing arrangements increased 19.3% from US$3.3 million in FY2017 to US$4.0 million in FY2018, primarily due to growth in the hybrid revenue sharing network which increased 17.5% from 80 IMAX theatres in FY2017 to 94 IMAX theatres in FY2018, while was partially offset by lower box office per screen.

Sales and Sales-type Lease Arrangements — Contingent Rent

Prior to the adoption of the new revenue recognition standard, the Company's sales and sales-type lease arrangements included contingent rent in excess of fixed minimum ongoing payments. This contingent rent, which is included in the Network Business operations, is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent payments in excess of fixed minimum ongoing payments of sales and sales-type lease arrangements are recognized as revenue when reported by theatre operators, provided collectability is reasonably assured. In addition, contingent rent includes amounts realized for changes in rent which are indexed to a local consumer price index. Effective 1 January, 2018, upon adoption of the new revenue recognition standard, the recognition of contingent rent on an ongoing basis, as discussed above, will only continue for sales-type lease arrangements. Contingent rent on sales arrangements is estimated and recognized with the revenue under the Theatre Business.

Due to the impact of *IFRS 15*, contingent rent of US$ 1.0 million related to theatre systems under sales arrangement was recognized under the Theatre Business.

Theatre Business

Revenue from our Theatre Business decreased 12.6% from US$79.7 million in FY2017 to US$69.6 million in FY2018.

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

Commercial	**As at 31 December**		
	2018	2017	Growth (%)
The PRC	**609**	513	18.7%
Hong Kong	**5**	5	—
Taiwan	**10**	9	11.1%
	624	527	18.4%
Institutional[1]	**15**	17	(11.8%)
Total	**639**	544	17.5%

Note:

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

The following table sets out the number of IMAX theatre systems installed by business arrangements in FY2018 and FY2017:

	FY2018	FY2017
Sales and sales-type lease arrangements	**27**	41
Revenue sharing arrangements	**70**	79
IMAX with Laser upgrades	**4**	—
Total theatre systems installed	**101**[(1)]	120

Notes:

(1) We installed 97 new IMAX theatre systems plus 4 IMAX with Laser upgrades (revenue sharing arrangements) in FY2018.

Sales and Sale-type Lease Arrangements

Theatre Business revenue from sales and sales-type lease arrangements decreased 24.5% from US$56.2 million in FY2017 to US$42.5 million in FY2018, resulting primarily from the revenue recognition in FY2018 of 14 fewer system sales and sales-type lease than FY2017. We recognised sales revenue on 41 new theatre systems in FY2017 with a total value of US$53.2 million, compared to 27 new theatre systems in FY2018 with a total value of US$38.6 million.

Average revenue per new system under sales and sales-type lease arrangements slightly increased from US$1.3 million in FY2017 to US$1.4 million in FY2018 due to the launch of our brand new IMAX with Laser system in FY2018.

Revenue Sharing Arrangements — Upfront Fees

Upfront revenue from hybrid revenue sharing arrangements slightly decreased 2.7% from US$6.8 million in FY2017 to US$6.6 million in FY2018, primarily due to USD depreciation in second half of FY2018 which affected the average revenue per system based on the same hybrid revenue sharing installations in FY2017 and FY2018.

Theatre System Maintenance

Theatre system maintenance revenue increased 27.5% from US$15.1 million in FY2017 to US$19.2 million in FY2018. Maintenance revenue increased in FY2018 as a result of an increase in the size of the IMAX network, which increased to 639 theatres as at FY2018 from 544 theatres as at FY2017.

New Business and Other

Revenue from new business and other was flat in FY2018 and FY2017 at US$0.2 million.

Cost of Sales

Our cost of sales decreased 13.9% from US$49.1 million in FY2017 to US$42.3 million in FY2018. This decrease was primarily due to a decrease of US$2.6 million in our Theatre Business, a decrease of US$3.9 million in our Network Business and a decrease of US$0.3 million in the New Business and Other.

Network Business

The cost of sales for our Network Business decreased 18.8% from US$20.6 million in FY2017 to US$16.7 million in FY2018 due to adoption of *IFRS 15* as explained further below, and increased depreciation costs associated with a larger full revenue sharing network, currently 316 theatres as at FY2018 versus 260 theatres as at FY2017. Prior to adoption of the new revenue standard, our cost of sales would be US$21.3 million in FY2018, an increase of 3.3%.

Film

In accordance with *IFRS 15*, for films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not considered in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is netted against DMR revenue earned from IMAX Corporation. Because of the adoption of *IFRS 15*, both DMR revenue from IMAX Corporation and DMR conversion costs to IMAX Corporation for imported films were reduced by $4.6 million for FY2018. Under the previous recognition standard, the cost of sales for film would be US$9.4 million in FY2018, an increased of 3.9% over FY2017.

The cost of sales for film decreased 46.2% from US$9.1 million in FY2017 to US$4.9 million in FY2018 driven by the reduction of cost due to the adoption of *IFRS 15* mentioned above, as well as lower DMR conversion costs on Chinese language films in our slate this year, offset by the increased film marketing spend from our new global brand campaign during FY2018 as compared to FY2017.

Revenue Sharing Arrangements — Contingent Rent

Cost of sales for contingent rent from revenue sharing arrangements increased 2.7% from US$11.5 million in FY2017 to US$11.8 million in FY2018, primarily due to increased depreciation costs associated with a larger full revenue sharing network, currently 316 theaters as at FY2018 versus 260 theaters as at FY2017, offset by decreased one-time upfront costs related to the installation of 5 fewer full revenue sharing arrangements in FY2018 versus FY2017.

Theatre Business

The cost of sales for our Theatre Business decreased 9.4% from US$28.0 million in FY2017 to US$25.4 million in FY2018, primarily due to 14 fewer IMAX theatres systems under sales and sales-type lease arrangements, offset by higher cost mix of systems under sales and sales-type lease arrangements due to our newly introduced IMAX with Laser.

Sales and Sales-type Lease Arrangements

Cost of sales from our Theatre Business under sales and sales-type lease arrangements decreased 14.4% from US$15.8 million in FY2017 to US$13.5 million in FY2018, primarily due to the costs recognised on 27 theatres systems installations under sales and sales-type lease arrangements in FY2018 as compared to 41 in FY2017, as well as higher cost mix of systems due to installation of IMAX with Laser in FY2018.

Revenue Sharing Arrangements — Upfront Fees

Cost of sales from installation of hybrid revenue sharing arrangements decreased 13.6% from US$5.5 million in FY2017 to US$4.8 million in FY2018, primarily due to lower cost of systems due to depreciation of USD on 14 theatre system installations under hybrid revenue sharing arrangements for both FY2017 and FY2018, as well as lower commission and marketing costs.

Theatre System Maintenance

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 13.3% from US$5.7 million in FY2017 to US$6.4 million in FY2018 commensurate with the additional costs associated with servicing a larger IMAX theatre network, currently 639 theatres as at FY2018 versus 544 theatres as at FY2017.

New Business and Other

Cost from new business and other decreased from US$0.5 million in FY2017 to US$0.2 million in FY2018. These costs were primarily due to the closure of the VR centre in Shanghai during FY2018.

Gross Profit and Gross Profit Margin

Our gross profit was US$75.3 million in FY2018, or 64.0% of total revenue compared to US$77.4 million in FY2017, or 61.2% of total revenue. The decrease in gross profit was largely attributable to a decrease of US$7.4 million in our Theatre Business, which was partially offset by an increase of US$4.9 million of our Network Business. The increase in gross profit margin was largely attributable to the growth of the IMAX theatre network and higher box office revenue combined with the operating leverage of our business.

Network Business

The gross profit from our Network Business increased 19.0% from US$26.0 million in FY2017 to US$31.0 million in FY2018, and the gross profit margin for our Network Business increased from 55.8% in FY2017 to 65.0% in FY2018. The increase was primarily due to an increase in our overall box office revenue, a decrease of one-time upfront costs related to fewer installations under full revenue sharing arrangements, and partly offset by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements. Prior to adoption of the new revenue standard, our gross profit margin would be 59.3% in FY2018.

Film

The gross profit for film increased 15.3% from US$18.4 million in FY2017 to US$21.2 million in FY2018, and the gross profit margin for our films business increased from 66.9% in FY2017 to 81.2% in FY2018. The increase was primarily due to an increase of 15.8% in our overall box office revenue from a similar number of films in PRC, and better performance of Chinese language films with higher margin than Hollywood films due to higher percentage of revenue and lower DMR cost and impact of *IFRS 15* amounted to 1,200 basis points.

Revenue Sharing Arrangements — Contingent Rent

The gross profit for contingent rent from revenue sharing arrangements increased 35.3% from US$7.2 million in FY2017 to US$9.8 million in FY2018. The gross profit margin was 38.7% in FY2017 and 45.4% in FY2018.

The gross profit for contingent rent from full revenue sharing arrangements increased 49.4% from US$3.9 million in FY2017 to US$5.8 million in FY2018, and the gross profit margin increased from 25.5% in FY2017 to 33.1% in FY2018. Gross profit margin increased primarily due to higher overall box office revenue, decreased one-time upfront costs associated with the installation of 5 fewer systems in FY2018, and partly offset by increased depreciation costs associated with a larger full revenue sharing network.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased 19.3% from US$3.3 million in FY2017 to US$4.0 million in FY2018 driven by growth in the hybrid revenue sharing network which increased 17.5% from 80 IMAX theatres in FY2017 to 94 IMAX theatres in FY2018.

Sales and Sales-type Lease Arrangements — Contingent Rent

Due to the impact of *IFRS 15*, contingent rent of US$ 1.0 million related to theatre systems under sales arrangement was recognized under the Theatre Business.

Theatre Business

The gross profit for our theatres business decreased 14.4% from US$51.6 million in FY2017 to US$44.2 million in FY2018. During the same period, our gross profit margin slightly decreased from 64.8% to 63.5%. The decrease in gross profit was primarily driven by the installation of 14 fewer theatres under sales and sales-type lease arrangements and partially offset by increased gross profit of theatre system maintenance as a result of certain operating leverage from a larger network of theatres. The decrease in gross profit margin was mainly driven by higher cost of our newly introduced IMAX with Laser systems in FY2018.

Sales and Sales-type Lease Arrangements

The gross profit for our Theatre Business from sales of new IMAX theatre systems decreased 28.4% from US$40.5 million in FY2017 to US$29.0 million in FY2018, primarily due to our installation of 14 fewer IMAX theatre systems under sales and sales-type lease arrangements in FY2018. Our gross profit margin decreased from 72.0% in FY2017 to 68.2% in FY2018 due to the installation of our newly launched commercial laser systems with a higher cost in FY2018.

Revenue Sharing Arrangements — Upfront Fees

The gross profit from upfront fees derived from hybrid revenue sharing arrangements increased US$0.5 million from US$1.3 million in FY2017 and US$1.8 million in FY2018, primarily due to higher gross profit margin of 27.9% in FY2018 compared to 18.8% in FY2017. The drivers of the higher margin were lower costs of systems due to lower commission and marketing expenses as well as the depreciation of the USD.

Theatre System Maintenance

The gross profit for our theatre system maintenance increased 36.0% from US$9.4 million in FY2017 to US$12.8 million in FY2018 as a result of certain operating leverage within the maintenance business generated from a larger network of theatres. Our gross profit margin increased from 62.5% in FY2017 to 66.7% in FY2018.

New Business and Other

The gross profit for new business and other was US$0.1 million in FY2018 and a loss of US$0.3 million in FY2017. The increase was due to the closure of the VR centre in Shanghai during FY2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.8% from US$14.5 million in FY2017 to US$16.1 million in FY2018, primarily due to: (i) a US$0.9 million increase in advertising and marketing costs commensurate with the launch of a new global brand campaign, support for a growing IMAX theatre network; (ii) an US$0.7 million change in foreign exchange resulting from a foreign exchange loss of US$0.1 million in FY2018 due to depreciation of USD as compared to a foreign exchange gain of US$0.6 million in FY2017; (iii) an increase in professional fees of US$0.3 million for an ongoing legal matters, partially offset by a US$0.4 million decrease in stock based compensation due to the end of vesting period of pre IPO equity grants in FY2018.

Restructuring Expenses and Associated Impairments

Restructuring expenses and associated impairments decreased from US$0.6 million in FY2017 to US$0.1 million in 2018. In June 2017, the Company announced the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. And in December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close the VR centre in Shanghai. Restructuring expenses and associated impairments are mainly comprised of employee severance costs, expenses of facilities, contract termination costs and associated impairments for property, plant and equipment.

The Company has recognized asset impairment of US$0.1 million related to the closure of VR centre in Shanghai.

Other Operating Expenses

Other operating expenses decreased 5.4% from US$7.1 million in FY2017 to US$6.7 million in FY2018, primarily due to: (i) a custom penalty accrual of US$0.3 million in FY2017, while there was no such penalty accrual in FY2018; (ii) a decrease of US$0.3 million in annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology License Agreements and the Trademark License agreements, and partially offset by an increase of US$0.2 million in provision for impairment of trade receivables.

Interest Income

Interest income increase 123.7% from US$0.7 million in FY2017 to US$1.6 million in FY2018, driven by higher interest rates and short-term deposit balances of US$88.0 million in FY2018, up from US$15.3 million in FY2017.

Income Tax Expense

Our income tax expense decreased 7.7% from US$12.1 million in FY2017 to US$11.2 million in FY2018. The decrease in income tax expense was primarily due to a decrease in our operating profit before income tax of US$1.9 million from US$55.8 million in FY2017 to US$54.0 million in FY2018. Our effective tax rate was 21.7% in FY2017 as compared to 20.7% in FY2018.

Profit for the Year

We reported a comprehensive profit for the year of US$32.5 million in FY2018 as compared to US$52.0 million in FY2017. The decrease was primarily due to a decrease in our profit for the year of US$0.9 million from US$43.7 million in FY2017 to US$42.8 million in FY2018 and a decrease in other comprehensive income of US$18.6 million from a loss of US$10.3 million in FY2018 (including a loss of US$8.3 million resulted by foreign currency translation adjustment and a loss of US$2.0 million related to change in fair value net of tax of financial assets at FVOCI) to an income of US$8.3 million in FY2017 (including an income of US$8.3 million related to foreign currency translation adjustment). For the foreign currency translation adjustment, the loss of US$8.3 million in FY2018 was due to appreciation of the closing rate of USD at 31 December 2018 compared with the closing rate at 31 December 2017, while the income of US$8.3 million in FY2017 was due to the depreciation of the closing rate of USD at 31 December 2017 compared with the closing rate at 31 December 2016. Comprehensive profit for the year in FY2018 included a US$1.8 million charge (US$2.2 million in FY2017) for share-based compensation.

Adjusted Profit

Adjusted profit, which consists of profit for the year adjusted for the impact of share-based compensation, restructuring expenses and associated impairments and the related tax impact, was US$45.9 million in FY2017 as compared to adjusted profit of US$44.3 million in FY2018, a decrease of 3.6%.

LIQUIDITY AND CAPITAL RESOURCES

	As at 31 December	
	2018	2017
	US$'000	*US$'000*
Current assets		
Other assets	**2,405**	2,960
Film assets	**221**	—
Inventories	**3,434**	5,612
Prepayments	**3,399**	1,971
Financing receivables	**8,785**	8,450
Trade and other receivables	**40,717**	53,995
Cash and cash equivalents	**120,224**	116,678
Total Current assets	**179,185**	189,666
Current liabilities		
Trade and other payables	**18,395**	18,522
Accruals and other liabilities	**8,838**	10,161
Income tax liabilities	**6,334**	4,458
Deferred revenue	**18,453**	23,545
Total Current Liabilities	**52,020**	56,686
Net Current Assets	**127,165**	132,980

As at 31 December 2018, we had net current assets of US$127.2 million compared to net current assets of US$133.0 million as at 31 December 2017. The decrease in net current assets in FY2018 was mainly attributable to a US$13.3 million decrease in trade and other receivables, a US$2.2 million decrease in inventories, and a US$1.9 million increase in income tax liabilities offset by a US$1.3 million decrease in accruals and other liabilities, a US$5.0 million decrease in deferred revenue, a US$3.5 million increase in cash and cash equivalents and a US$1.4 million increase in prepayments.

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

	As at 31 December	
	2018	2017
Cash and cash equivalents denominated in US$	**$ 64,664**	$ 79,572
Cash and cash equivalents denominated in RMB (in thousands)	**¥ 377,779**	¥ 213,487
Cash denominated in Hong Kong dollars HK$ (in thousands)	**$ 4,159**	$ 34,657

CAPITAL MANAGEMENT

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

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

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

CASH FLOW ANALYSIS

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

	FY2018	FY2017
	US$'000	*US$'000*
Net cash provided by operating activities	**56,356**	35,338
Net cash used in investing activities	**(22,773)**	(27,452)
Net cash (used in) provided by financing activities	**(27,428)**	936
Effects of exchange rate changes on cash	**(2,609)**	1,953
Increase in cash and cash equivalents during year	**3,546**	10,775
Cash and cash equivalents, beginning of year	**116,678**	105,903
Cash and cash equivalents, end of year	**120,224**	116,678

Cash From Operating Activities

FY2018

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

FY2017

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

Cash Used in Investing Activities

FY2018

Our net cash used in investing activities was approximately US$22.8 million for FY2018, primarily related to investments in IMAX theatre equipment amounting to US$24.1 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, partially offset by a loan repayment from a joint venture of US$2.6 million related to the China Film Fund.

FY2017

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

Cash (Used in) Provided by Financing Activities

FY2018

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

FY2017

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

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments in FY2019 and FY2020 amounting to US$1.2 million and US$0.9 million respectively related primarily to leased office and warehouse space in Shanghai.

Capital Commitments

As at 31 December 2018, we had capital expenditures contracted but not provided for of US$29.0 million (2017: US$30.0 million), and capital expenditures authorised but not contracted for of US$ nil (2017: US$ nil).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems. During FY2018 and FY2017, our capital expenditures were US$25.1 million and US$24.9 million, respectively.

Going forward, with respect to our Theatre Business, we plan to allocate a significant portion of our capital expenditures to the continued expansion of the IMAX theatre network under revenue sharing arrangements to execute on our existing contractual backlog and future signings. We expect to incur capital expenditures of approximately US$26.6 million in FY2019, which will be primarily used to expand the IMAX theatre network under full revenue sharing arrangements, commercial laser upgrades and invest in a China film fund.

Contingencies

Lawsuits, claims and proceedings arise in the ordinary course of business. In accordance with our internal policies, in connection with any such lawsuits, claims or proceedings, we will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

In March 2013, IMAX Shanghai Multimedia, the Company's wholly-owned subsidiary in the PRC, received notice from the Shanghai office of the General Administration of Customs ("**Customs Authority**") that it had been selected for a customs audit (the "**Audit**"). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai Multimedia of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theatre systems during the period from October, 2011 through March, 2013. Though IMAX Shanghai Multimedia's importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the "**ASB**") of the Customs Authority and then to the Third Division of Shanghai People's Procuratorate for further review. During the year ended 31 December 2017, at the request of the ASB, IMAX Shanghai Multimedia paid RMB1 million (approximately US$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment. Given that the amount of the underpayment exceeds RMB200,000, the Company was advised that the matter may be treated as a criminal rather than as an administrative matter. During the year ended 31 December 2017, the Company accrued US$0.3 million in respect of the fine that it believed to be likely to result from the matter. Following review of the matter by the Third Division of Shanghai People's Procuratorate, on 8 August 2018, IMAX Shanghai Multimedia was informed that its logistics function, but not IMAX Shanghai Multimedia itself, would face criminal charges, together with other defendants including the importation agent and the relevant employee of IMAX Shanghai Multimedia. As at the date of this announcement, the court has not yet handed down its judgement after hearings held on 24 October 2018 and 22 January 2019. The Company was advised that the range of the potential fine would likely be between three and five times the underpayment. During the year ended 31 December 2018, the Company did not make any additional accrual for the matter. As the actual amount of the fine remains unknown, the Company cautions that should the court eventually find the logistics function of IMAX Shanghai

Multimedia liable for the underpayment, the actual fine may be greater or less than the amount accrued or the expected range.

Except as disclosed above or as otherwise disclosed herein, as at 31 December 2018, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our commitments and contingent liabilities since 31 December 2018.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US$56.4 million in FY2018 and US$35.3 million in FY2017. As the IMAX theatre network continues to grow, we believe our cash flow from operating activities will continue to increase and fund existing business operations and any initial capital expenditures required under revenue sharing arrangements.

On 13 July 2018, we entered into an unsecured revolving facility for up to RMB200.0 million (approximately US$30.0 million) to fund ongoing working capital requirement. The total amounts drawn and available under the working capital loan at 31 December 2018 were US$nil and RMB200.0 million, respectively.

STATEMENT OF INDEBTEDNESS

As at 31 December 2018:

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

Since 31 December 2018, being the latest date of our audited financial statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

On 17 January 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, as an investor entered into a cornerstone investment agreement with Maoyan Entertainment ("**Maoyan**") (as the issuer) and Morgan Stanley Asia Limited (as a sponsor, underwriter and the underwriters' representative). Pursuant to this agreement, IMAX China (Hong Kong), Limited agreed to invest US$15 million to subscribe for certain number of shares of Maoyan at the final offer price pursuant to the global offering of the share capital of Maoyan, and this investment would be subject to, among other restrictions, a lock-up period of six months following the date of the global offering. On February 4, 2019, Maoyan completed its global offering, upon which, IMAX China (Hong Kong), Limited became an approximately 0.706% shareholder in Maoyan.

OFF BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as at 31 December 2018.

KEY FINANCIAL RATIOS

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

	2018	2017
Gearing ratio[(1)]	**29.8%**	32.9%
Adjusted profit margin[(2)]	**37.7%**	36.3%

Notes:

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

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

Gearing Ratio

Our gearing ratio decreased from 32.9% as at 31 December 2017 to 29.8% as at 31 December 2018, primarily due to a decrease in deferred revenue of US$5.1 million and accruals and other liabilities of US$1.3 million.

Adjusted Profit Margin

Our adjusted profit margin increased from 36.3% as at 31 December 2017 to 37.7% as at 31 December 2018, primarily due to increased gross profit margin from 61.2% in 2017 to 64.0% in 2018, which was largely attributable to the growth of the IMAX theatre network and higher box office revenue combined with the operating leverage of our business.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

In November 2018, the Company adopted a Dividend Policy. Pursuant to the policy, in recommending or declaring dividends, the Company should maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, statutory and regulatory restrictions and other factors that our Board considers relevant. Our Board recommended the payment of a final dividend, for the 2018 fiscal year, of US$0.02 per share (equivalent to approximately HK$0.157 per share). Distribution of any final dividend shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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

As at 31 December 2018, the Company had a total equity of US$77.9 million. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "**Articles of Association**"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

DIVIDEND

During the year ended 31 December 2018, the Company declared and paid a final dividend for financial year 2017 of US$0.04 per share (equivalent to approximately HK$0.314 per share) and an interim dividend for the first half of financial year 2018 of US$0.02 per share (equivalent to approximately HK$0.157 per share).

During the board meeting held on 26 February 2019, the Board recommended a final dividend of US$0.02 per share (equivalent to approximately HK$0.157 per share) to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect to the book closure date, record date and payment date, the proposed 2018 final dividend is expected to be distributed to shareholders on or around 31 May 2019. There will be no scrip dividend option for the 2018 final dividend.

MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the year ended 31 December 2018.

SIGNIFICANT INVESTMENTS

We are entitled to IMAX Hong Kong Holding's share of any distributions and dividends paid by TCL-IMAX Entertainment in respect of profit from Greater China as a result of a preferred share we hold in IMAX Hong Kong Holding, which holds 50% of TCL-IMAX Entertainment, a 50:50 joint venture between IMAX Hong Kong Holding (which is indirectly wholly owned by IMAX Corporation) and Sino Leader (Hong Kong) Limited (which is wholly owned by TCL Multimedia Technology Holdings Limited). TCL-IMAX Entertainment engages in the design, development, manufacturing and global sale of premium home theatre systems incorporating components of IMAX's projection and sound technology adapted for a broader home environment. TCL-IMAX Entertainment has commenced offering home theatre systems in Greater China in the second half of 2016. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the year ended 31 December 2018.

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

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

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company conducted share repurchases of 2,526,300 listed Shares on the Stock Exchange pursuant to a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 3 May 2018 and resolutions of the Board adopted on 27 October 2018. The following table outlines details of the shares repurchased on a monthly basis.

Month	Number of shares repurchased	Highest price per share HK$	Lowest price paid per share HK$	Average price paid per share HK$	Aggregate price paid HK$
October 2018	304,000	18.66	16.72	17.64	5,362,137.39
November 2018	1,619,700	20.00	17.80	18.94	30,674,044.52
December 2018	602,600	20.00	18.20	19.11	11,515,404.92
	2,526,300				47,551,586.83

In addition, 169,703 listed Shares were purchased through Computershare Hong Kong Trustees Limited, the trustee engaged by the Company for administering its share option schemes, for satisfying the vesting of the relevant options and/or restricted share units.

Save for the above, there have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares during the year ended 31 December 2018 (the "**Reporting Period**").

CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

During the Reporting Period, the Company has complied with all the code provisions of the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has set up an audit committee on 27 May 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and of the CG Code. The terms of reference was updated on 30 November 2018. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, maintain an appropriate relationship with the Company's auditor and provide advice and comments to the Board.

The audit committee consists of three members: Mr. John Davison, an Independent Non-executive Director, Ms. Dawn Taubin, an Independent Non-Executive Director and Mr. Richard Gelfond, a Non-executive Director. Mr. John Davison is the chairman of the audit committee. The audit committee members have reviewed the Group's results for the year ended 31 December 2018.

TAX RELIEF

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

ANNUAL REPORT

The Company will publish its annual report for the year ended 31 December 2018 in March 2019 on the Company's and the Stock Exchange's websites and such annual report will contain all the information required by Appendix 16 of the Listing Rules.

LITIGATION

The Group did not have any material litigation outstanding as at 31 December 2018.

INSIDE INFORMATION

This is an announcement made pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571) and Rule 13.09 of the Listing Rules.

Results of IMAX Corporation

Our controlling shareholder, IMAX Corporation, is a company listed on the New York Stock Exchange in the United States. As of the date of this announcement, IMAX Corporation beneficially owns 68.28% of the issued share capital of the Company.

On or about 26 February 2019 (approximately 4:15 p.m., New York time), IMAX Corporation made an announcement regarding its financial results for the fourth quarter and full year ended 31 December 2018 (the "**Earnings Release**") and held its fourth quarter and full year results earnings call (the "**Earnings Call**"). If you wish to review the Earnings Release prepared by IMAX Corporation and as filed with the U.S. Securities and Exchange Commission, please visit: https://www.sec.gov/Archives/edgar/data/921582/000119312519051956/d709423dex991.htm. Unless otherwise provided therein, all dollar amounts in the Earnings Release and Earnings Call are denominated in United States dollars.

On or about 26 February 2019 (approximately 5:00 p.m., New York time), IMAX Corporation filed its audited annual report on the Form 10-K for the year ended 31 December 2018 with the United States Securities and Exchange Commission (the "**Annual Report**"), in accordance with the ongoing disclosure obligations applicable to the companies listed on the New York Stock Exchange. The Annual Report includes certain annual financial information and operating statistics regarding the Company. If you wish to review the Annual Report prepared by IMAX Corporation and as filed with the U.S. Securities and Exchange Commission, please visit: https://www.sec.gov/Archives/edgar/data/921582/000119312519052075/d703352d10k.htm. Unless otherwise provided therein, all dollar amounts in the Annual Report are denominated in United States dollars.

The financial information disclosed in the Earnings Release, Earnings Call and the financial results contained in the Annual Report have been prepared in accordance with the Generally Accepted Accounting Principles of the United States, which are different from the International Financial Reporting Standards, which is the standard employed by the Company, as a company listed on the Main Board of the Stock Exchange, to prepare and present financial information. As such financial information of the Company in the Earnings Release, Earnings Call and the Annual Report are not directly comparable to the financial results published directly by the Company.

With a view to ensuring that all shareholders and potential investors of the Company have equal and timely access to information pertaining to the Company, set forth below are the key highlights of financial information and other information published by IMAX Corporation in the Annual Report and Earnings Release that relate to our Company and our operations:

(1) ANNUAL REPORT EXTRACTS

"Item 1. Business

IMAX THEATER NETWORK

Greater China continues to be the Company's second-largest market, measured by revenues, with approximately 31% of overall revenues generated from the Company's China operations in 2018. As at December 31, 2018, the Company had 639 theaters operating in Greater China and an additional 272 new theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 58.7% of the Company's current backlog for new IMAX theater systems. The Company's largest single international partnership is in China with Wanda Film, formerly Wanda Cinema Line Corporation ("**Wanda**"). Wanda's total commitment to the Company is for 359 theater systems, of which 344 theater systems are under the parties' joint revenue sharing arrangement.

The Company indirectly owns approximately 67.96% of IMAX China Holding, Inc. ("**IMAX China**"), whose shares trade on the Hong Kong Stock Exchange. IMAX China remains a consolidated subsidiary of the Company.

Digital Re-Mastering (IMAX DMR)

In 2018, 70 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 60 films in 2017. In addition, in April 2018, the Company, in conjunction with Panda Productions released an IMAX original production, *Pandas*.

To date, the Company has announced the following 29 DMR titles to be released in 2019 to the IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

- *Free Solo: The* IMAX *Experience* (National Geographic, January 2019);

- *How to Train Your Dragon: The Hidden World: The* IMAX *Experience* (Universal Pictures, January 2019, select international markets);

- *Glass: The* IMAX *Experience* (Universal Pictures and Walt Disney Studios, January 2019);

- *Crazy Alien: The* IMAX *Experience* (Enlight, February 2019, China only);

- *The Wandering Earth: The* IMAX *Experience* (Beijing Culture, February 2019, China and select international markets);

- *Pegasus: The* IMAX *Experience* (Maoyan, February 2019, China only);

- *The Lego Movie 2: The Second Part: The* IMAX *Experience* (Warner Bros. Pictures, February 2019);
- *Alita: Battle Angel: The* IMAX *Experience* (20th Century Fox, February 2019);
- *Captain Marvel: The* IMAX *Experience* (Walt Disney Studios, March 2019);
- *Dumbo: The* IMAX *Experience* (Walt Disney Studios, March 2019);
- *Shazam!: The* IMAX *Experience* (Warner Bros. Pictures, April 2019);
- *Hellboy: The* IMAX *Experience* (Lionsgate, April 2019);
- *Disneynature Penguins': The* IMAX *Experience* (Walt Disney Studios, April 2019);
- *The Curse of La Llorona: The* IMAX *Experience* (Warner Bros. Pictures, April 2019);
- *Avengers: Endgame: The* IMAX *Experience* (Walt Disney Studios, April 2019);
- *Godzilla: King of Monsters: The* IMAX *Experience* (Warner Bros. Pictures, May 2019);
- *Aladdin: The* IMAX *Experience* (Walt Disney Studios, May 2019);
- *Dark Phoenix: The* IMAX *Experience* (20th Century Fox, June 2019);
- *Men in Black: International: The* IMAX *Experience* (Sony Pictures, June 2019);
- *Toy Story 4: The* IMAX *Experience* (Walt Disney Studios, June 2019);
- *Spider-Man: Far From Home: The* IMAX *Experience* (Sony Pictures, July 2019);
- *Lion King: The* IMAX *Experience* (Walt Disney Studios, July 2019);
- *The New Mutants: The* IMAX *Experience* (20th Century Fox, August 2019);
- *Artemis Fowl: The* IMAX *Experience* (Walt Disney Studios, August 2019);
- *IT: Chapter 2: The* IMAX *Experience* (Warner Bros. Pictures, September 2019);
- *VIY 2: Mystery of the Dragon's Seal: The* IMAX *Experience* (Nashe Kino, September 2019, Russia and select international markets);
- *Frozen 2: The* IMAX *Experience* (Walt Disney Studios, November 2019);
- *Jumanji: Welcome to the Jungle Sequel: The* IMAX *Experience* (Sony Pictures, December 2019); and
- *Star Wars: Episode IX: The* IMAX *Experience* (Walt Disney Studios, December 2019).

In addition, the Company will be releasing an IMAX original production, Superpower Dogs, in March 2019.

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate for the IMAX theater network in 2019.

New Business Initiatives

IMAX Home Entertainment Technologies and Services

In 2013, the Company established a joint venture with TCL Multimedia Technology Holding Limited ("TCL") to design, develop, manufacture and sell a premium home theater system. The Company does not intend to invest significant capital into the joint venture going forward, and instead expects any additional funding to be provided through third party capital.

Original Content

The Company has created two film funds to help finance the production of original content. The Company formed the IMAX China Film Fund (the "China Film Fund") with its subsidiary IMAX China, its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund targets productions that can leverage the Company's brand, relationships, technology and release windows in China.

Virtual Reality

In 2017, the Company piloted a virtual reality ("VR") initiative which included several pilot IMAX VR Centers located in a number of multiplexes, as well as a stand-alone venue, each retrofitted with proprietary VR pods that permitted interactive, moveable VR experiences.

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers.

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. In January 2019, the Company decided to dissolve the VR Fund. For the year ended December 31, 2018, the Company has recognized asset impairment and exit costs related to its VR investments of $7.2 million. For additional information refer to note 24 in Item 8 of this 2018 Form 10-K.

MARKETING AND CUSTOMERS

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Greater China, Europe and Asia. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis.

The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

	2018 Theater Network Base				2017 Theater Network Base			
	Commercial Multiplex	**Commercial Destination**	**Institutional**	**Total**	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	**365**	**4**	**33**	**402**	364	4	35	403
Canada	**39**	**2**	**7**	**48**	37	2	7	46
Greater China(1)	**624**	**—**	**15**	**639**	527	—	17	544
Asia (excluding Greater China)	**112**	**2**	**3**	**117**	100	1	3	104
Western Europe	**101**	**4**	**10**	**115**	88	4	10	102
Russia & the CIS	**62**	**—**	**—**	**62**	58	—	—	58
Latin America(2)	**47**	**1**	**12**	**60**	42	—	12	54
Rest of the World	**59**	**1**	**2**	**62**	56	1	2	59
Total	**1,409**	**14**	**82**	**1,505**	1,272	12	86	1,370

(1) Greater China includes the People's Republic of China, Hong Kong, Taiwan and Macau.

(2) Latin America includes South America, Central America and Mexico.

For information on revenue breakdown by geographic area, see note 19 to the accompanying audited consolidated financial statements in Item 8 of this 2018 Form 10-K. The Company's foreign operations are subject to certain risks. See "Risk Factors — The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects" and "Risk Factors — The Company faces risks in connection with the continued expansion of its business in China" in Item 1A. The Company's largest customer, Wanda, as at December 31, 2018, represents 34.8% of the Company's network of theaters, 29.1% of the Company's theater system backlog and 17.1% of revenues.

Item 1A. Risk Factors

The Company faces risks in connection with the continued expansion of its business in China.

At present, Greater China is the Company's second largest market, by revenue. In recent years, the Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 31% of overall revenues generated from the Company's China operations in 2018. As at December 31, 2018, the Company had 639 theaters operating in Greater China with an additional 272 theaters in backlog, which represent 48.2% of the Company's current backlog and which are scheduled to be installed in Greater China by 2022. Of the systems currently scheduled to be installed in Greater China, 72.1% are under joint revenue sharing arrangements, which further increase the Company's ongoing exposure to box office performance in this market.

The China market faces a number of risks, including changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including the risk of an economic downturn or recession, trade embargoes, restrictions or other barriers, as well as other conditions that may impact the Company's exhibitor and studio partners, as well as consumer spending. Adverse developments in any of these areas could impact the Company's future revenues and cash flows and could cause the Company to fail to achieve anticipated growth.

Moreover, certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company's continued expansion in China and the business conducted by it within China. For instance, the Chinese government regulates both the number and timing or terms of Hollywood films released to the China market. The Company cannot provide assurance that the Chinese government will continue to permit the release of IMAX films in China or that the timing or number of IMAX releases will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company were unable to navigate China's regulatory environment, including with respect to its current customs inquiry, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company's business could be adversely impacted.

Recent consolidation among commercial exhibitors and studios reduces the breadth of the Company's customer base, and could result in a narrower market for the Company's products and reduced negotiating leverage. A deterioration in the Company's relationship with key partners could materially, adversely affect the Company's business, financial condition or results of operation. In addition, an adverse economic impact on a significant customer's business operations could have a corresponding material adverse effect on the Company.

The Company's primary customers are commercial multiplex exhibitors. The commercial exhibition industry has undergone significant consolidation in recent years, with Dalian Wanda's acquisitions of AMC and Hoyts Group in 2012 and 2015, respectively, and AMC's acquisition of Carmike Cinemas and Odeon & UCI Cinemas Group, which includes Nordic Cinema Group, in 2016. In the current year the industry continues to consolidate, as evidenced by Cineworld Group's acquisition of Regal Entertainment Group. Exhibitor concentration has resulted in individual exhibitor chains constituting a material portion of the Company's network and revenue. For instance, Wanda and

AMC continue to be the Company's largest exhibitor customer, representing approximately, 20.2%, 16.4% and 13.5% of the Company's total revenues in 2018, 2017 and 2016, respectively. Wanda's current commitment to the Company stands at 359 IMAX theater systems, and Wanda and AMC together represented approximately 34.8% of the commercial network and 29.1% of the Company's backlog as at December 31, 2018. The share of the Company's revenue that is generated by Wanda and AMC is expected to continue to grow as the number of Wanda theater systems currently in backlog are opened. No assurance can be given that significant customers such as Wanda and/or AMC will continue to purchase theater systems and/or enter into joint revenue sharing arrangements with the Company and if so, whether contractual terms will be affected. If the Company does business with either Wanda and/or AMC or other large exhibitor chains less frequently or on less favorable terms than currently, the Company's business, financial condition or results of operations may be adversely affected. In addition, an adverse economic impact on a significant customer's business operations could have a corresponding material adverse effect on the Company.

The Company also receives revenues from studios releasing IMAX DMR films. Hollywood studios have also experienced recent consolidation, as evidenced by Walt Disney Studios' planned acquisition of certain studio assets from Twenty First Century Fox, expected to occur during early 2019. Studio consolidation could result in individual studios comprising a greater percentage of the Company's film slate and overall DMR revenue, and could expose the Company to the same risks described above in connection with exhibitor consolidation.

The Company may experience adverse effects due to exchange rate fluctuations.

A substantial portion of the Company's revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Chinese Yuan Renminbi, Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. Even in jurisdictions in which the Company does not accept local currency or requires minimum payments in U.S. dollars, significant local currency issues may impact the profitability of the Company's arrangements for the Company's customers, which ultimately affect the Company's ability to negotiate cost-effective arrangements and, therefore, the Company's results of operations. In addition, because IMAX films generate box office in 80 different countries, unfavorable exchange rates between applicable local currencies and the U.S. dollar could affect the Company's reported gross box office and revenues, further impacting the Company's results of operations.

The Company may not convert all of its backlog into revenue and cash flows.

At December 31, 2018, the Company's sales backlog included 564 theater systems, consisting of 177 systems under sales or lease arrangements and 387 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future and includes initial fees along with the estimated present value of contractual ongoing fees due over the term, and a variable consideration estimate for the theater systems under sales arrangements, but it excludes amounts allocated to maintenance and extended warranty revenues. Notwithstanding the legal obligation to do so, some of the Company's customers with which it has signed contracts may not accept delivery of theater systems that are included in the Company's backlog. An economic downturn may further exacerbate the risk of customers not accepting delivery of theater systems, especially in places such as Greater China that represent a large portion of the Company's backlog. Any reduction in backlog could adversely affect the Company's future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer-requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company's business.

The Company may not realize cost savings or other benefits from any of its restructuring initiatives and the failure to do so may have an adverse impact on its business, financial condition or results of operations.

In connection with the ongoing analysis and evaluation of its business operations, the Company has implemented, and may from time to time implement, initiatives that it believes will position the Company for future success and long-term sustainable growth, including the elimination of certain business ventures, consolidation of properties, staff reductions and the realignment of resources. Although the Company expects its restructuring initiatives to result in cost savings aimed at increasing efficiency, profitability, operating leverage and free cash flow, there can be no assurances that these benefits will be realized to the full extent projected. Some of these initiatives may also result in unintended consequences, such as additional employee attrition, business disruptions and distraction of management. If the Company does not achieve projected savings as a result of these initiatives or incurs higher than expected or unanticipated costs in implementing these initiatives, its business, financial condition or results of operations could be adversely impacted.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

On May 3, 2018, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to buy back shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at May 3, 2018 (35,818,112 shares). The share purchase program expires on the date of the 2019 annual general meeting of IMAX China. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. In 2018, IMAX China repurchased 2,526,300 common shares at an average price of HKD18.77 per share (U.S. $2.40).

The total number of shares purchased during the three months ended December 31, 2018, under both the Company and IMAX China's repurchase plans, does not include any shares received in the administration of employee share-based compensation plans.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Network Business: Digital Re-Mastering (IMAX DMR) and Joint Revenue Sharing Arrangements

Digital Re-Mastering (IMAX DMR)

The Company has developed a proprietary technology, known as IMAX DMR, to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters. IMAX DMR digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which The IMAX Experience is known. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of net box office receipts, defined as gross box office receipts less applicable sales taxes, of any commercial films released outside of Greater China in return for converting them to the IMAX DMR format and distributing them through the IMAX theater network. Within Greater China, the Company receives a lower percentage of box office receipts for certain Hollywood films.

The Company believes that the growth in international box office remains an important driver of future growth for the Company. During the year ended December 31, 2018, 65.0% of the Company's gross box office from IMAX DMR films was generated in international markets, as compared to 63.4% in the year ended December 31, 2017. To support continued growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During the year ended December 31, 2018, 25 local language IMAX DMR films including 18 in China, three in India, one in France, South Korea, Japan and Russia, respectively, were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2019 and beyond.

In April 2018, the Company released an IMAX original production, *Pandas*, in conjunction with Panda Productions.

To date, the Company has announced the following 29 DMR titles to be released in 2019 to the IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

- *Free Solo: The* IMAX *Experience* (National Geographic, January 2019);
- *How to Train Your Dragon: The Hidden World: The* IMAX *Experience* (Universal Pictures, January 2019, select international markets);
- *Glass: The* IMAX *Experience* (Universal Pictures and Walt Disney Studios, January 2019);

- *Crazy Alien: The* IMAX *Experience* (Enlight, February 2019, China only);
- *The Wandering Earth: The* IMAX *Experience* (Beijing Culture, February 2019, China and select international markets);
- *Pegasus: The* IMAX *Experience* (Maoyan, February 2019, China only);
- *The Lego Movie 2: The Second Part: The* IMAX *Experience* (Warner Bros. Pictures, February 2019);
- *Alita: Battle Angel: The* IMAX *Experience* (20th Century Fox, February 2019);
- *Captain Marvel: The* IMAX *Experience* (Walt Disney Studios, March 2019);
- *Dumbo: The* IMAX *Experience* (Walt Disney Studios, March 2019);
- *Shazam!: The* IMAX *Experience* (Warner Bros. Pictures, April 2019);
- *Hellboy: The* IMAX *Experience* (Lionsgate, April 2019);
- *Disneynature Penguins': The* IMAX *Experience* (Walt Disney Studios, April 2019);
- *The Curse of La Llorona: The* IMAX *Experience* (Warner Bros. Pictures, April 2019);
- *Avengers: Endgame: The* IMAX *Experience* (Walt Disney Studios, April 2019);
- *Godzilla: King of Monsters: The* IMAX *Experience* (Warner Bros. Pictures, May 2019);
- *Aladdin: The* IMAX *Experience* (Walt Disney Studios, May 2019);
- *Dark Phoenix: The* IMAX *Experience* (20th Century Fox, June 2019);
- *Men in Black: International: The* IMAX *Experience* (Sony Pictures, June 2019);
- *Toy Story 4: The* IMAX *Experience* (Walt Disney Studios, June 2019);
- *Spider-Man: Far From Home: The* IMAX *Experience* (Sony Pictures, July 2019);
- *Lion King: The* IMAX *Experience* (Walt Disney Studios, July 2019);
- *The New Mutants: The* IMAX *Experience* (20th Century Fox, August 2019);
- *Artemis Fowl: The* IMAX *Experience* (Walt Disney Studios, August 2019);
- *IT: Chapter 2: The* IMAX *Experience* (Warner Bros. Pictures, September 2019);
- *VIY 2: Mystery of the Dragon's Seal: The* IMAX *Experience* (Nashe Kino, September 2019, Russia and select international markets);

- *Frozen 2: The* IMAX *Experience* (Walt Disney Studios, November 2019);
- *Jumanji: Welcome to the Jungle Sequel: The* IMAX *Experience* (Sony Pictures, December 2019); and
- *Star Wars: Episode IX: The* IMAX *Experience* (Walt Disney Studios, December 2019).

In addition, the Company will be releasing an IMAX original production, Superpower Dogs, in March 2019.

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate for the IMAX theater network in 2019.

New Business

IMAX Home Entertainment Technologies and Services

In 2013, the Company established a joint venture with TCL Multimedia Technology Holding Limited ("**TCL**") to design, develop, manufacture and sell a premium home theater system. The Company does not intend to invest significant capital into the joint venture going forward, and instead expects any additional funding to be provided through third party capital.

Original Content

The Company has created two film funds to help finance the production of original content. The Company formed the IMAX China Film Fund (the "**China Film Fund**") with its subsidiary IMAX China, its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund targets productions that can leverage the Company's brand, relationships, technology and release windows in China.

In addition, the Company's IMAX Original Film Fund (the "**Original Film Fund**") was established in 2014 to co-finance a portfolio of 10 original large format films. The initial investment in the Film Fund was committed to by a third party in the amount of $25.0 million, with the possibility of contributing additional funds. The Company has contributed $9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at December 31, 2018, the Original Film Fund has invested $20.9 million toward the development of original films.

Virtual Reality

In 2017, the Company piloted a virtual reality ("**VR**") initiative which included several pilot IMAX VR Centers located in a number of multiplexes, as well as a stand-alone venue, each retrofitted with proprietary VR pods that permitted interactive, moveable VR experiences.

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers.

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. In January 2019, the Company decided to dissolve the VR Fund. For the year ended December 31, 2018, the Company has recognized asset impairment and exit costs related to its VR investments of $7.2 million. For additional information refer to note 24 in Item 8 of this 2018 Form 10-K.

IMAX Theater Network and Backlog

IMAX Theater Network

The following table outlines the breakdown of the IMAX theater network by type and geographic location as at December 31:

	2018 Theater Network Base				2017 Theater Network Base			
	Commercial Multiplex	**Commercial Destination**	**Institutional**	**Total**	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	**365**	**4**	**33**	**402**	364	4	35	403
Canada	**39**	**2**	**7**	**48**	37	2	7	46
Greater China(1)	**624**	**—**	**15**	**639**	527	—	17	544
Asia (excluding Greater China)	**112**	**2**	**3**	**117**	100	1	3	104
Western Europe	**101**	**4**	**10**	**115**	88	4	10	102
Russia & the CIS	**62**	**—**	**—**	**62**	58	—	—	58
Latin America(2)	**47**	**1**	**12**	**60**	42	—	12	54
Rest of the World	**59**	**1**	**2**	**62**	56	1	2	59
Total	**1,409**	**14**	**82**	**1,505**	1,272	12	86	1,370

(1) Greater China includes China, Hong Kong, Taiwan and Macau.

(2) Latin America includes South America, Central America and Mexico.

Greater China continues to be the Company's second-largest market, measured by revenues, with approximately 31% of overall revenues generated from the Company's China operations in 2018. As at December 31, 2018, the Company had 639 theaters operating in Greater China with an additional 272 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 48.2% of the Company's current backlog including upgrades. The Company's largest single international partnership is in China with Wanda Film, formerly Wanda Cinema Line Corporation ("**Wanda**"). Wanda's total, commitment to the Company is for 359 theater systems in Greater China (of which 344 theater systems are under the parties' joint revenue sharing arrangement). See "Risk Factors — The Company faces risks in connection with the continued expansion of its business in China" in Item 1A of Part I of this 2018 Form 10-K.

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at December 31:

	2018 IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	**Hybrid JRSA**	**Total JRSA**	**Sale/ Sales-type lease**	**Total**
Domestic Total (United States & Canada)	**273**	**5**	**278**	**126**	**404**
International:					
Greater China	**316**	**94**	**410**	**214**	**624**
Asia (excluding Greater China)	**30**	**1**	**31**	**81**	**112**
Western Europe	**40**	**24**	**64**	**37**	**101**
Russia & the CIS	**—**	**—**	**—**	**62**	**62**
Latin America	**1**	**—**	**1**	**46**	**47**
Rest of the World	**14**	**—**	**14**	**45**	**59**
International Total	**401**	**119**	**520**	**485**	**1,005**
Worldwide Total	**674**	**124**	**798**	**611**(1)	**1,409**

	2017				
	IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/ Sales-type lease	Total
Domestic Total (United States & Canada)	273	4	277	124	401
International:					
Greater China	260	80	340	187	527
Asia (excluding Greater China)	35	23	58	42	100
Western Europe	31	24	55	33	88
Russia & the CIS	—	—	—	58	58
Latin America	—	—	—	42	42
Rest of the World	14	3	17	39	56
International Total	340	130	470	401	871
Worldwide Total	613	134	747	525	1,272

(1) Includes 38 theater systems which were previously classified under joint revenue sharing arrangements — hybrid sales arrangements. See "Critical Accounting Policies and Estimates" for further details of the adoption impact of ASC Topic 606 on the Company's revenues.

As at December 31, 2018, 278 (2017 — 277) of the 798 (2017 — 747) theaters under joint revenue sharing arrangements in operation, or 34.8% (2017 — 37.1%) were located in the United States and Canada, with the remaining 520 (2017 — 470) or 65.2% (2017 — 62.9%) of arrangements being located in international markets.

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at December 31:

	2018 IMAX Theater Backlog				
	Traditional JRSA	**Hybrid JRSA**	**Total JRSA**	**Sale/ Sales-type lease**	**Total**
Domestic Total (United States & Canada)	**145**	**3**	**148**	**7**	**155**
International:					
Greater China	**98**	**98**	**196**	**76**	**272**
Asia (excluding Greater China)	**4**	**—**	**4**	**38**	**42**
Western Europe	**17**	**17**	**34**	**9**	**43**
Russia & the CIS	**—**	**—**	**—**	**17**	**17**
Latin America	**1**	**—**	**1**	**10**	**11**
Rest of the World	**4**	**—**	**4**	**20**	**24**
International Total	**124**	**115**	**239**	**170**	**409**
Worldwide Total	**269**	**118**	**387**	**177**(1)	**564**(2)

	2017 IMAX Theater Backlog				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/ Sales-type lease	Total
Domestic Total (United States & Canada)	37	3	40	9	49
International:					
Greater China	134	102	236	73	309
Asia (excluding Greater China)	6	11	17	20	37
Western Europe	33	4	37	8	45
Russia & the CIS	—	—	—	17	17
Latin America	—	—	—	17	17
Rest of the World	6	1	7	18	25
International Total	179	118	297	153	450
Worldwide Total	216	121	337	162	499(3)

(1) Includes 25 theater systems which were previously classified under joint revenue sharing arrangements — hybrid sales arrangements. See "Critical Accounting Policies and Estimates" for further details of the adoption impact of ASC Topic 606 on the Company's revenues.

(2) Includes 73 new IMAX with Laser projection system configurations and 98 upgrades of existing locations to IMAX with Laser projection system configurations.

(3) Includes five upgrades of existing locations to laser-based digital theater system configurations.

Approximately 72.5% of IMAX theater system arrangements in backlog as at December 31, 2018 are scheduled to be installed in international markets (2017 — 90.2%).

RESULTS OF OPERATIONS

Results of Operations Discussion for the Three Years Ended December 31, 2018

The Company reported net income of $33.6 million, or $0.53 per basic and diluted share, for the year ended December 31, 2018, as compared to net income of $12.5 million, or $0.19 per basic and diluted share, for the year ended December 31, 2017 and net income of $39.3 million, or $0.58 per basic and diluted share, for the year ended December 31, 2016.

Net income for the year ended December 31, 2018 includes a $22.2 million charge, or $0.35 per diluted share (2017 — $22.7 million, or $0.35 per diluted share; 2016 — $30.5 million or $0.45 per diluted share), for stock-based compensation and a $9.5 million charge, or $0.15 per diluted share for exit costs, restructuring charges and associated impairments (2017 — $16.2 million, or $0.25 per diluted share; 2016 — $nil), a $11.7 million change, or $0.19 per diluted share, for a legal arbitration award related to one of the Company's litigation matters from 2006 (2017 — $nil; 2016 — $nil) and a $3.0 million charge, or $0.05 per diluted share, for executive transition costs (2017 — $nil; 2016 — $nil). In 2017, the Company also recognized a $9.3 million, or $0.14 per diluted share, non-recurring tax charge as the Company re-measured its deferred tax assets and liabilities as at the date of enactment of the amended Tax Cut and Jobs Act.

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award, executive transition costs, the related tax impact of these adjustments, and tax charge from the provisional re-measurement of U.S. deferred tax assets and liabilities given changes enacted by the Tax Act, was $70.2 million, or $1.11 per diluted share, for the year ended December 31, 2018 as compared to adjusted net income of $51.5 million, or $0.79 per diluted share, for the year ended December 31, 2017 and $61.1 million, or $0.90 per diluted share, for the year ended December 31, 2016.

The Company reported net income attributable to common shareholders of $22.8 million, or $0.36 per basic share and diluted share for the year ended December 31, 2018 (2017 — $2.3 million, or $0.04 per basic share and diluted share; 2016 — $28.8 million, or $0.43 per basic share and $0.42 per diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award, executive transition costs, the related tax impact of these adjustments, and tax charge from the provisional re-measurement of U.S. deferred tax assets and liabilities given changes enacted by the Tax Act, was $57.8 million, or $0.91 per diluted share, for the year ended December 31, 2018 as compared to adjusted net income attributable to common shareholders of $40.5 million, or $0.62 per diluted share, for the year ended December 31, 2017 and $50.0 million, or $0.73 per diluted share, for the year ended December 31, 2016.

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	Years Ended December 31,					
	2018		2017		2016	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	**$ 33,595**	**$ 0.53**	$ 12,518	$ 0.19	$ 39,320	$ 0.58
Adjustments:						
Stock-based compensation	**22,211**	**0.35**	22,653	0.35	30,523	0.45
Exit costs, restructuring charges and associated impairments	**9,542**	**0.15**	16,174	0.25	—	—
Legal arbitration award	**11,737**	**0.19**	—	—	—	—
Executive transition costs	**2,994**	**0.05**	—	—	—	—
Tax impact on items listed above	**(9,873)**	**(0.16)**	(9,218)	(0.14)	(8,783)	(0.13)
Impact of enactment of U.S. Tax Cut and Jobs Act	**—**	**—**	9,323	0.14	—	—
Adjusted net income	**70,206**	**1.11**	51,450	0.79	61,060	0.90
Net income attributable to non-controlling interests[1]	**(10,751)**	**(0.17)**	(10,174)	(0.16)	(10,532)	(0.16)
Stock-based compensation (net of tax of $0.1 million, $0.2 million and $0.2 million, respectively)[1]	**(394)**	**(0.01)**	(620)	(0.01)	(533)	(0.01)
Exit costs, restructuring charges and associated impairments (net of tax of $0.4 million, $0.1 million, and $nil, respectively)[1]	**(1,262)**	**(0.02)**	(181)	—	—	—
Adjusted net income attributable to common shareholders	**$ 57,799**	**$ 0.91**	$ 40,475	$ 0.62	$ 49,995	$ 0.73
Weighted average diluted shares outstanding		**63,207**		65,540		68,263

(1) Reflects amounts attributable to non-controlling interests.

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2018 decreased to $374.4 million from $380.8 million in 2017, primarily due to a decrease in the new business segment, primarily attributable to "*Marvel's Inhumans*", partially offset by an increase in revenues from the Company's theater business segment. Revenue for the year ended December 31, 2017 includes $20.4 million, or 5.3% of total revenue, related to new business initiatives, which was not part of the year ended December 31, 2018. The gross margin across all segments in 2018 was $207.9 million, or 55.5% of total revenue, compared to $185.2 million, or 48.7% of total revenue in 2017. Impairment charges included in gross margin for the year ended December 31, 2017, were $19.7 million, of which $13.0 million related to new business initiatives, or 5.2% of total revenue, which was not part of the year ended December 31, 2018.

The Company's revenues for the year ended December 31, 2017 increased to $380.8 million from $377.3 million in 2016, largely due to an increase in revenues from the Company's new business segment, primarily attributable to "*Marvel's Inhumans*". The gross margin across all segments in 2017 was $185.2 million, or 48.7% of total revenue, compared to $202.7 million, or 53.7% of total revenue in 2016. Impairment charges included in gross margin for the year ended December 31, 2017, were $19.7 million, of which $13.0 million related to new business initiatives, or 5.2% of total revenue, compared to $3.7 million, of which $nil related to new business initiatives, or 1.0% of total revenue in the year ended December 31, 2016. Impacting gross margin in 2017, was the gross loss experienced in the Company's new business segment, mainly due to the impairment charges discussed above.

Income Taxes

The Company's Chinese subsidiary continues to make inquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock-based compensation for stock options issued by the Chinese subsidiary's parent company, IMAX China. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed settlement of these transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company's Chinese subsidiary has treated the stock-based compensation as deductible and has set up related deferred tax assets of $1.2 million.

Non-Controlling Interests

The Company's consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of non-controlling interests in its subsidiaries created for the Film Fund and VR Content Fund activity. For the year ended December 31, 2018, the net income attributable to non-controlling interests of the Company's subsidiaries was $10.8 million (2017 — $10.2 million; 2016 — $10.5 million).

LIQUIDITY AND CAPITAL RESOURCES

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("**IMAX Shanghai Multimedia**"), the Company's majority-owned subsidiary in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million USD) to fund ongoing working capital requirements. The total amounts drawn and available under the working capital loan at December 31, 2018 were nil and 200.0 million Renminbi, respectively.

Cash and Cash Equivalents

As at December 31, 2018, the Company's principal sources of liquidity included cash and cash equivalents of $141.6 million, the Credit Facility, anticipated collection from trade accounts receivable of $93.3 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of $28.7 million and payments expected in the next 12 months on existing backlog deals. As at December 31, 2018, the Company had drawn $40.0 million on the Credit Facility (remaining availability of $260.0 million) and has extinguished the Playa Vista Loan. There were no letters of credit and advance payment guarantees outstanding under the Credit Facility and the Bank of Montreal Facility. Cash held outside of North America as at December 31, 2018 was $121.9 million (December 31, 2017 — $119.4 million), of which $54.7 million was held in the People's Republic of China ("**PRC**") (December 31, 2017 — $32.6 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.4 million.

Item 7A. Quantitative and Qualitative Factors about Market Risk

The Company is exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. Market risk is the potential change in an instrument's value caused by, for example, fluctuations in interest and currency exchange rates. The Company's primary market risk exposure is the risk of unfavorable movements in exchange rates between the U.S. dollar, the Canadian dollar and the Chinese Yuan Renminbi. The Company does not use financial instruments for trading or other speculative purposes.

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 80 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX (Shanghai) Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

Certain of the Company's subsidiaries held approximately 375.7 million Renminbi ($54.7 million U.S dollars) in cash and cash equivalents as at December 31, 2018 (December 31, 2017 — 213.0 million Renminbi or $32.6 million U.S. dollars) and are required to transact locally in Renminbi. Foreign currency exchange transactions, including the remittance of any funds into and out of the PRC, are subject to controls and require the approval of the China State Administration of Foreign Exchange to complete. Any developments relating to the Chinese economy and any actions taken by the China government are beyond the control of the Company; however, the Company monitors and manages its capital and liquidity requirements to ensure compliance with local regulatory and policy requirements.

IMAX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	As at December 31, 2018	2017
Assets		
Cash and cash equivalents	**$ 141,590**	$ 158,725
Accounts receivable, net of allowance for doubtful accounts of $3,174 (December 31, 2017 — $1,613)	**93,309**	130,546
Financing receivables, net of allowance for uncollectible amounts (notes 5 and 20(c))	**127,432**	129,494
Inventories (note 6)	**44,560**	30,788
Prepaid expenses	**10,294**	7,549
Film assets (note 7)	**16,367**	5,026
Property, plant and equipment (note 8)	**280,658**	276,781
Other assets (notes 9 and 20(e))	**55,004**	26,757
Deferred income taxes (note 10)	**31,264**	30,708
Other intangible assets (note 11)	**34,095**	31,211
Goodwill	**39,027**	39,027
Total assets	**$ 873,600**	$ 866,612
Liabilities		
Bank indebtedness (note 12)	**$ 37,753**	$ 25,357
Accounts payable	**32,057**	24,235
Accrued and other liabilities (notes 7, 13, 14, 15(c), 20(b), 20(d), 21 and 24)	**97,724**	100,140
Deferred revenue	**106,709**	113,270
Total liabilities	**274,243**	263,002
Commitments and contingencies (notes 13 and 14)		
Non-controlling interests (note 22)	**6,439**	1,353
Shareholders' equity		
Capital stock (note 15) common shares — no par value. Authorized — unlimited number. 61,478,168 — issued and 61,433,589 — outstanding (December 31, 2017 — 64,902,201 — issued and 64,695,550 — outstanding)	**422,455**	445,797
Less: Treasury stock, 44,579 shares at cost (December 31, 2017 — 206,651)	**(916)**	(5,133)
Other equity	**179,595**	175,300
Accumulated deficit	**(85,385)**	(87,592)
Accumulated other comprehensive loss	**(3,588)**	(626)
Total shareholders' equity attributable to common shareholders	**512,161**	527,746
Non-controlling interests (note 22)	**80,757**	74,511
Total shareholders' equity	**592,918**	602,257
Total liabilities and shareholders' equity	**$ 873,600**	$ 866,612

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share amounts)

	Years Ended December 31,		
	2018	2017	2016
Revenues			
Equipment and product sales (note 16(c))	**$ 106,591**	$ 103,294	$ 122,382
Services (note 16(c))	**181,740**	195,594	166,862
Rentals (note 16(c))	**74,472**	72,281	77,315
Finance income	**11,598**	9,598	9,500
Other (note 16(a))	**—**	—	1,275
	374,401	380,767	377,334
Costs and expenses applicable to revenues (note 2(m))			
Equipment and product sales	**54,853**	48,172	69,680
Services (note 16(c))	**84,236**	120,629	83,780
Rentals	**27,383**	26,720	21,086
Other	**—**	—	110
	166,472	195,521	174,656
Gross margin	**207,929**	185,246	202,678
Selling, general and administrative expenses (note 15(c))	**117,477**	109,882	124,316
Research and development	**13,728**	20,855	16,315
Amortization of intangibles	**4,145**	3,019	2,079
Receivable provisions, net of recoveries (note 17)	**3,130**	2,647	954
Asset impairments (notes 8 and 20(e))	**—**	1,225	417
Legal arbitration award (note 14)	**11,737**	—	—
Executive transition costs (note 23)	**2,994**	—	—
Exit costs, restructuring charges and associated impairments (note 24)	**9,542**	16,174	—
Income from operations	**45,176**	31,444	58,597
Retirement benefits non-service expense (note 21)	**(499)**	(518)	(429)
Interest income	**1,844**	1,027	1,490
Interest expense	**(2,916)**	(1,942)	(1,805)
Income from operations before income taxes	**43,605**	30,011	57,853
Provision for income taxes (note 10)	**(9,518)**	(16,790)	(16,212)
Loss from equity-accounted investments, net of tax	**(492)**	(703)	(2,321)
Net income	**33,595**	12,518	39,320
Less: net income attributable to non-controlling interests (note 22)	**(10,751)**	(10,174)	(10,532)
Net income attributable to common shareholders	**$ 22,844**	$ 2,344	$ 28,788
Net income per share attributable to common shareholders — basic and diluted: (note 15(d))			
Net income per share — basic	**$ 0.36**	$ 0.04	$ 0.43
Net income per share — diluted	**$ 0.36**	$ 0.04	$ 0.42

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars)

	Years Ended December 31, **2018**	2017	2016
Net income	**$ 33,595**	$ 12,518	$ 39,320
Unrealized defined benefit plan actuarial gain (note 21(a))	**1,448**	1,004	159
Unrealized postretirement benefit plans actuarial gain (notes 21(c) and 21(d))	**85**	125	184
Amortization of postretirement benefit plan actuarial loss (note 21(c))	**—**	—	69
Unrealized net (loss) gain from cash flow hedging instruments (note 20(d))	**(2,219)**	2,545	1,049
Realization of cash flow hedging net (gain) loss upon settlement (note 20(d))	**(408)**	(824)	3,078
Foreign currency translation adjustments (note 2)	**(3,170)**	3,618	(2,851)
Other comprehensive (loss) income, before tax	**(4,264)**	6,468	1,688
Income tax recovery (expense) related to other comprehensive (loss) income (note 10(h))	**286**	(746)	(1,180)
Other comprehensive (loss) income, net of tax	**(3,978)**	5,722	508
Comprehensive income	**29,617**	18,240	39,828
Less: Comprehensive income attributable to non-controlling interests	**(9,735)**	(11,322)	(8,797)
Comprehensive income attributable to common shareholders	**$ 19,882**	$ 6,918	$ 31,031

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	Years Ended December 31,		
	2018	2017	2016
Cash provided by (used in):			
Operating Activities			
Net income	**$ 33,595**	$ 12,518	$ 39,320
Adjustments to reconcile net income to cash from operations:			
Depreciation and amortization (notes 18(c) and 19(a))	**57,437**	66,807	46,485
Write-downs, net of recoveries (notes 18(d) and 19(a))	**11,770**	29,568	5,940
Change in deferred income taxes	**(6,923)**	(4,017)	4,940
Stock and other non-cash compensation	**23,723**	24,075	31,586
Unrealized foreign currency exchange loss (gain)	**631**	(502)	462
Loss from equity-accounted investments	**95**	306	2,685
Gain (loss) on non-cash contribution to equity-accounted investees	**397**	397	(364)
Investment in film assets	**(23,200)**	(34,645)	(22,308)
Changes in other non-cash operating assets and liabilities (note 18(a))	**12,447**	(9,141)	(30,874)
Net cash provided by operating activities	**109,972**	85,366	77,872
Investing Activities			
Purchase of property, plant and equipment	**(13,368)**	(24,143)	(15,278)
Investment in joint revenue sharing equipment	**(34,810)**	(42,634)	(42,910)
Investment in new business ventures	**—**	(1,606)	(1,911)
Acquisition of other intangible assets	**(8,696)**	(5,214)	(4,787)
Net cash used in investing activities	**(56,874)**	(73,597)	(64,886)
Financing Activities			
Increase in bank indebtedness (note 12)	**65,000**	—	—
Repayment of bank indebtedness (note 12)	**(50,667)**	(2,000)	(2,000)
Repurchase of common shares (note 15)	**(71,479)**	(46,140)	(116,518)
Repurchase of common shares, IMAX China (note 15)	**(6,084)**	—	—
Settlement of restricted share units and options	**(916)**	(20,331)	(17,889)
Common shares issued — stock options exercised	**1,017**	16,668	13,113
Treasury stock repurchased for future settlement of restricted share units	**(5,249)**	(5,133)	(1,996)
Taxes withheld and paid on employee stock awards vested	**(1,437)**	(600)	(528)
Issuance of subsidiary shares to non-controlling interests	**7,796**	—	2,479
Dividends paid to non-controlling interests	**(6,934)**	—	—
Credit facility amendment fees paid	**(1,909)**	—	—
Taxes paid on secondary sales and repatriation dividend	**—**	—	(2,443)
Net cash used in financing activities	**(70,862)**	(57,536)	(125,782)
Effects of exchange rate changes on cash	**629**	(267)	106
Decrease in cash and cash equivalents during year	**(17,135)**	(46,034)	(112,690)
Cash and cash equivalents, beginning of year	**158,725**	204,759	317,449
Cash and cash equivalents, end of year	**$ 141,590**	$ 158,725	$ 204,759

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

IMAX CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)

	Years Ended December 31, 2018	2017	2016
Adjustments to capital stock:			
Balance, beginning of period	**$ 440,664**	$ 437,274	$ 448,310
Average carrying value of repurchased and retired common shares	**(23,629)**	(11,884)	(24,865)
Change in shares held in treasury	**4,216**	(3,194)	(1,939)
Fair value of stock options exercised at the grant date	**70**	3,542	3,139
Employee stock options exercised	**218**	14,652	11,431
Issuance of common shares for vested restricted share units	**—**	274	1,198
Balance, end of period	**421,539**	440,664	437,274
Adjustments to other equity:			
Balance, beginning of period	**175,300**	177,304	163,094
Retrospective adoption of ASC Topic 718, Stock compensation, forfeiture rates	**—**	—	5,331
Paid-in-capital for employee stock options granted	**5,907**	5,496	13,766
Paid-in-capital for restricted share units granted	**16,325**	17,157	16,493
Paid-in-capital for restricted share units vested	**(12,582)**	(14,756)	(14,731)
Cash received from the issuance of common shares in excess of par value	**799**	2,017	1,684
Fair value of stock options exercised at the grant date	**(70)**	(3,542)	(3,139)
Paid-in-capital for non-employee stock options granted	**—**	17	30
Stock option exercised from treasury shares purchased on open market	**—**	(8,393)	(5,224)
Common shares repurchased, IMAX China	**(6,084)**	—	—
Balance, end of period	**179,595**	175,300	177,304
Adjustments to accumulated deficit:			
Balance, beginning of period	**(87,592)**	(47,366)	19,930
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers	**27,213**	—	—
Retrospective adoption of ASC Topic 740, Intra-entity transfers	**—**	(8,314)	—
Retrospective adoption of ASC Topic 718, Stock compensation, forfeiture rates	**—**	—	(4,431)
Net income attributable to common shareholders	**22,844**	2,344	28,788
Common shares repurchased and retired	**(47,850)**	(34,256)	(91,653)
Balance, end of period	**(85,385)**	(87,592)	(47,366)
Adjustments to accumulated other comprehensive loss:			
Balance, beginning of period	**(626)**	(5,200)	(7,443)
Other comprehensive (loss) income, net of tax	**(2,962)**	4,574	2,243
Balance, end of period	**(3,588)**	(626)	(5,200)
Adjustments to non-controlling interests:			
Balance, beginning of period	**74,511**	59,562	49,959
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers	**735**	—	—
Net income attributable to non-controlling interests	**13,461**	13,801	11,338
Other comprehensive (loss) income, net of tax	**(1,016)**	1,148	(1,735)
Dividends paid to non-controlling shareholders	**(6,934)**	—	—
Balance, end of period	**80,757**	74,511	59,562
Total Shareholders' Equity	**$ 592,918**	$ 602,257	$ 621,574
Common shares issued and outstanding:			
Balance, beginning of period	**64,695,550**	66,159,902	69,673,244
Employee stock options exercised	**12,750**	405,229	347,814
Restricted share units vested (net of shares withheld for tax)	**—**	7,127	52,631
Restricted share units and stock option exercises settled from treasury shares purchased on open market	**206,651**	66,093	—
Repurchase of common shares	**(3,436,783)**	(1,736,150)	(3,849,222)
Shares held in treasury	**(44,579)**	(206,651)	(64,565)
Balance, end of period	**61,433,589**	64,695,550	66,159,902

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

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

10. Income Taxes

(a) Income (loss) before income taxes by tax jurisdiction are comprised of the following:

	Years Ended December 31, 2018	2017	2016
Canada	**$ (14,749)**	$ (17,261)	$ 21,002
United States	**(6,079)**	(11,895)	505
China	**50,446**	50,410	41,224
Ireland	**8,071**	3,632	(9,768)
Other	**5,916**	5,125	4,890
	$ 43,605	$ 30,011	$ 57,853

(b) The (provision) recovery of income taxes is comprised of the following:

	Years Ended December 31, 2018	2017	2016
Current:			
Canada	**$ (4,893)**	$ (6,898)	$ (1,396)
United States	**1,300**	267	1,756
China	**(11,259)**	(12,724)	(10,131)
Ireland	**(1,095)**	(735)	(405)
Other	**(494)**	(717)	(1,093)
	(16,441)	(20,807)	(11,269)
Deferred:[1]			
Canada	**5,993**	8,748	(3,583)
United States	**2,386**	(7,109)	(4,359)
China	**(6)**	1,405	776
Ireland	**(1,423)**	1,085	2,352
Other	**(27)**	(112)	(129)
	6,923	4,017	(4,943)
Provision for income taxes	**$ (9,518)**	$ (16,790)	$ (16,212)

(1) For the year ended December 31, 2018, the Company has not adjusted the valuation allowance from the prior year (2017 — $nil) relating to the future utilization of deductible temporary differences, tax credits, and certain net operating loss carryforwards. Included in the provision for income taxes is the deferred tax related to amounts recorded in and reclassified from other comprehensive income in the year of $0.3 million.

(g) Uncertain tax positions

Cash held outside of North America as at December 31, 2018 was $121.9 million (December 31, 2017 — $119.4 million), of which $54.7 million was held in the People's Republic of China ("PRC") (December 31, 2017 — $32.6 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.4 million.

12. Credit Facility and Other Financing Arrangements

Credit Facility

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("IMAX Shanghai Multimedia"), one of the Company's majority-owned subsidiaries in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million U.S. Dollars) to fund ongoing working capital requirements. The total amounts drawn and available under the working capital loan at December 31, 2018 were nil and 200.0 million Renminbi, respectively ($nil and approximately $30.0 million U.S. Dollars, respectively).

14. Contingencies and Guarantees

(c) In March 2013, IMAX Shanghai Multimedia, received notice from the Shanghai office of the General Administration of Customs ("Customs Authority") that it had been selected for a customs audit (the "Audit"). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai Multimedia of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theater systems during the period from October 2011 through March 2013. Though IMAX Shanghai Multimedia's importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the "ASB") of the Customs Authority and then to the Third Division of Shanghai People's Procuratorate for further review. The amount of the underpayment exceeds RMB200,000, the applicable ASB threshold for treatment as a criminal matter, and on August 8, 2018, IMAX Shanghai Multimedia was informed that its logistics function, but not IMAX Shanghai Multimedia itself, would face criminal charges. A preliminary court conference was held on September 5, 2018, and hearings took place on October 24, 2018 and January 22, 2019. During the year ended December 31, 2017, at the request of the ASB, IMAX Shanghai Multimedia paid RMB1 million (approximately US$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment and recorded an estimate of US$0.3 million in respect of fines that it believes are likely to result from the matter. IMAX Shanghai Multimedia has been advised that the range of potential penalties is between three and five times the underpayment; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that the actual fines or other penalties maybe be greater or less than the amount accrued or the expected range.

15. Capital Stock

(c) Stock-Based Compensation

The Company issues stock-based compensation to eligible employees, directors, and consultants under the IMAX Corporation Amended and Restated Long-Term Incentive Plan (the "IMAX LTIP") and the China Long-Term Incentive Plan (the "China LTIP") as summarized below.

A separate stock option plan, the China LTIP, was adopted by a subsidiary of the Company in October 2012.

China Long-Term Incentive Plan

Each stock option ("China Option"), RSU or cash settled share-based payment ("CSSBP") issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of IMAX China.

The CSSBPs represent the right to receive cash payments in an amount equal to a certain percentage of the excess of the total equity value of IMAX China based on the per share price in the IMAX China initial public offering (the "IMAX China IPO") over the strike price of the CSSBPs. The CSSBPs were issued in conjunction with the China LTIP, with similar terms and conditions as the China Options. The CSSBP awards are accounted as liability awards, however the fair value of the liability is fixed at the time of the initial public offering. During 2017, the remaining balance of the CSSBPs vested and were settled in cash for $0.6 million (2016 — $0.5 million).

In connection with the IMAX China IPO and in accordance with the China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, IMAX China has issued additional China Options and China LTIP Restricted Share Units ("China RSUs").

The following table summarizes the expense related to China Options, China RSUs, CSSBPs and any accrued liability related to CSSBPs:

	Years Ended December 31,		
	2018	2017	2016
Expense			
China Options	**$ 217**	$ 1,034	$ 971
China RSUs	**1,229**	1,124	518
CSSBPs	**—**	353	429
CSSBPs liability	**$ —**	$ —	$ 289

Issuer Purchases of Equity Securities

On May 3, 2018, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at May 3, 2018 (35,818,112 shares). The share purchase program expires on the date of the 2019 annual general meeting of IMAX China. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. In 2018, IMAX China repurchased 2,526,300 common shares at an average price of HKD18.77 per share (U.S. $2.40).

22. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

The Company indirectly owns approximately 67.96% of IMAX China, whose shares trade on the Hong Kong Stock Exchange. IMAX China remains a consolidated subsidiary of the Company.

On January 17, 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, as an investor entered into a cornerstone investment agreement with Maoyan Entertainment ("Maoyan") (as the issuer) and Morgan Stanley Asia Limited (as a sponsor, underwriter and the underwriters' representative). Pursuant to this agreement, IMAX China (Hong Kong), Limited agreed to invest $15.0 million to subscribe for a certain number of shares of Maoyan at the final offer price pursuant to the global offering of the share capital of Maoyan, and this investment would be subject to, among other restrictions, a lock-up period of six months following the date of the global offering. On February 4, 2019, Maoyan completed its global offering, upon which, IMAX China (Hong Kong), Limited became a 0.706% shareholder in Maoyan.

(b) Other Non-Controlling Interests

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. As at December 31, 2018, the Company invested $4.0 million toward the development of VR content. In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. Subsequent to year end, the Company has also decided dissolve the VR

Fund and not actively pursue any additional VR opportunities at this time. For additional details see Note 24.

Balance as at January 1, 2016	$	3,307
Issuance of subsidiary shares to non-controlling interests		2,479
Net loss		(806)
Balance as at January 1, 2017	$	4,980
Net loss		(3,627)
Balance as at December 31, 2017	$	1,353
Issuance of subsidiary shares to non-controlling interests		7,796
Net loss		(2,710)
Balance as at December 31, 2018	$	6,439"

(2) EARNINGS RELEASE EXTRACTS

"We believe our achievements last year set the stage for IMAX to have a blockbuster year in 2019. We further differentiated The IMAX Experience®, increased awareness of the IMAX brand and tackled key challenges in China, where we delivered our strongest box office year ever and doubled the industry growth rate," said IMAX CEO Richard L. Gelfond. "While these achievements have already begun paying dividends — as evidenced by the 47% year-over-year increase in adjusted earnings per share — we anticipate these initiatives to continue to improve the performance of our business in 2019 and beyond. And we have hit the ground running in 2019. Year-to date, we have already achieved $78 million of box office in China, a 61% increase compared to 2018. Overall, we are encouraged by our recent results as we head into the blockbuster filled calendar, which includes highly anticipated films such as *Captain Marvel, Avengers: Endgame, The Lion King and Star Wars Episode IX*."

Fourth Quarter 2018 Results

Network Update

During the quarter, the Company installed 88 theater systems, 67 of which were for new theater locations. The total IMAX® theater network consisted of 1,505 systems as of December 31, 2018, of which 1,409 were in commercial multiplexes. There were 564 new theaters in backlog as of December 31, 2018, compared to the 499 in backlog as of December 31, 2017.

IMAX also signed contracts for 12 new theaters and 2 upgrades in the fourth quarter. During 2018, the Company signed agreements for 203 IMAX with Laser systems, 59 of which were new systems, 114 of which were upgrades to existing IMAX theaters and 30 of which were amendments to existing backlog arrangements. For a breakdown of theater system signings, installations, network and backlog by type for the fourth quarter, please see the end of this press release.

"The story is quite simple. Beginning in 2017 we made a series of strategic decisions to turn around our business," said Gelfond. "From top to bottom, the evidence is clear in 2018 that these initiatives are working as our growth, margin and return metrics are on solidly positive trend lines. We have confidence each of these trends will continue in 2019 and our margin and return improvement should accelerate as we continue to execute against the initiatives we laid out."

Box Office Update

Gross box office from IMAX DMR® films was $236.7 million in the fourth quarter of 2018 compared to $278.1 million in the fourth quarter of 2017, primarily due to a stronger film slate in the fourth quarter of 2017 which included *Star Wars: The Last Jedi*. Gross box office was generated primarily by the exhibition of 29 films (22 new and 7 carryover), as compared to 26 films (22 new and 4 carryover) exhibited in the fourth quarter of 2017.

OTHER INFORMATION

(in thousands of U.S. dollars)

Non-GAAP Financial Measures:

In this release, the Company presents adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share, EBITDA and adjusted EBITDA per Credit Facility as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) and non-recurring charges on net income. In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results and could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests, its stock-based compensation (net of any related tax impact) and non-recurring charges in determining net income attributable to common shareholders. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition to, and not as a substitute for, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	Year Ended December 31,			
	2018		2017	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS
Reported net income	**$ 33,595**	**$ 0.53**	$ 12,518	$ 0.19
Adjustments:				
Stock-based compensation	**22,211**	**0.35**	22,653	0.35
Exit costs, restructuring charges and associated impairments	**9,542**	**0.15**	16,174	0.25
Legal arbitration award	**11,737**	**0.19**	—	—
Executive transition costs	**2,994**	**0.05**	—	—
Tax impact on items listed above	**(9,873)**	**(0.16)**	(9,218)	(0.14)
Impact of enactment of U.S. Tax Act	**—**	**—**	9,323	0.14
Adjusted net income	**70,206**	**1.11**	51,450	0.79
Net income attributable to non-controlling interests [1]	**(10,751)**	**(0.17)**	(10,174)	(0.16)
Stock-based compensation (net of tax of $0.1 million, and $0.2 million, respectively) [1]	**(394)**	**(0.01)**	(620)	(0.01)
Exit costs, restructuring charges and associated impairments (net of tax of $0.4 million and $0.1 million, respectively) [1]	**(1,262)**	**(0.02)**	(181)	—
Adjusted net income attributable to common shareholders	**$ 57,799**	**$ 0.91**	$ 40,475	$ 0.62
Weighted average diluted shares outstanding		**63,207**		65,540

(1) Reflects amounts attributable to non-controlling interests.

DEFINITIONS USED IN THIS ANNOUNCEMENT

"Annual Report"	the annual report of IMAX Corporation dated 26 February 2019
"Board" or "Board of Directors"	the board of directors of the Company
"Company" or "IMAX China"	IMAX China Holding, Inc., a company incorporated under the laws of the Cayman Islands with limited liability on 30 August 2010
"connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder"	shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires
"CG Code"	the Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Directors"	the directors of the Company and "Director" shall be construed accordingly as a director of the Company
"Earnings Call"	the earnings call held by IMAX Corporation on 26 February 2019 New York time
"Earnings Release"	the earnings announced by IMAX Corporation on 26 February 2019 New York time
"EBITDA"	profit for the year with adjustments for depreciation and amortization, interest income and income tax expense
"FY" or "financial year"	financial year ended or ending 31 December
"Global Offering"	the offering of the Shares on the Main Board of the Stock Exchange
"Greater China"	for the purposes of this document only, the PRC, Hong Kong, Macau and Taiwan
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board

"IMAX Barbados"	IMAX (Barbados) Holding, Inc., a company incorporated in Barbados with limited liability on 18 August 2010 and a controlling shareholder of the Company
"IMAX Corporation" or the "Controlling Shareholder"	IMAX Corporation, a company incorporated in Canada with limited liability in 1967 and listed on the New York Stock Exchange (NYSE: IMAX) and our ultimate controlling shareholder, or where the context requires, any of its wholly-owned subsidiaries
"IMAX Hong Kong"	IMAX China (Hong Kong), Limited, a company incorporated in Hong Kong with limited liability on 12 November 2010, which changed its name to its present name on 16 March 2011 and a direct wholly-owned subsidiary of the Company
"IMAX Hong Kong Holding"	IMAX (Hong Kong) Holding, Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of IMAX Barbados
"IMAX Shanghai Multimedia"	IMAX (Shanghai) Multimedia Technology Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC on 31 May 2011 and a direct wholly-owned subsidiary of IMAX Hong Kong
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	8 October 2015
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC" or "China"	the People's Republic of China, but for the purposes of this document only, except where the context requires, references in this announcement to PRC or China exclude Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus of the Company dated 24 September 2015
"RSUs"	restricted share units

"Services Agreements"	the services agreements entered into by each of IMAX Shanghai Multimedia and IMAX Hong Kong with IMAX Corporation, details of which are set out in "Connected Transactions — Exempt Connected Transactions" in the Prospectus
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	Ordinary share(s) with a nominal value of US$0.0001 each in the share capital of the Company and a "**Share**" means any of them
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCL-IMAX Entertainment"	TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited
"Tier 1 Cities"	Beijing, Shanghai, Guangzhou and Shenzhen
"Tier 2 Cities"	Tianjin, Hangzhou, Suzhou, Chengdu, Ningbo, Qingdao, Nanjing, Wuhan, Wuxi, Changsha, Chongqing, Zhengzhou, Shenyang, Xi'an, Jinan
"Tier 3 Cities"	Shijiazhuang, Kunming, Dalian, Changchun, Hohhot, Taiyuan, Hefei, Fuzhou, Xiamen, Ha'erbin, Nanchang, Shantou, Zhuhai, Haikou, Sanya, Nanning, Guiyang, Lasa, Lanzhou, Xining, Yinchuan, Urumchi, Baoding, Jinhua, Yantai, Taizhou, Changzhou, Nantong, Shaoxing, Jiaxing, Quanzhou, Cangzhou, Zibo, Handan, Jining, Xuzhou, Langfang, Ordos, Zhongshan, Dongying, Yulin, Dezhou, Binzhou, Huzhou, Luoyang, Weihai, Xingtai, Dongguan, Foshan, Wenzhou, Weifang, Linyi, Tangshan and Baotou
"Tier 4 Cities"	all cities in the PRC at or above the prefecture-level other than Tier 1, Tier 2 and Tier 3 Cities
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"USD" or "US$" or "$"	U.S. dollars, the lawful currency of the United States of America

GLOSSARY

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

"3D"	three-dimensional
"backlog"	our backlog comprises the aggregate number of commitments for IMAX theatre installations pursuant to contracts we have entered into with exhibitors
"box office"	the gross aggregate proceeds from ticket sales received by the relevant exhibitor(s) in the relevant market(s) for the relevant type(s) of film. For example, the Greater China box office is the aggregate proceeds from ticket sales received by all exhibitors in Greater China, and the Greater China IMAX box office is the aggregate proceeds from ticket sales received by all the exhibitors in Greater China in respect of IMAX films and IMAX Original Films. We also use the concept of box office in our revenue sharing arrangements, where it refers to the aggregate proceeds from ticket sales received by exhibitors in respect of IMAX films with which we have entered into a revenue sharing arrangement
"box office revenue"	the portion of box office that is due to be paid to the Group under revenue sharing arrangements in our theatre systems business and/or arrangements with IMAX Corporation and studios in our films business, as applicable
"Chinese language films"	a motion picture approved for theatrical release in the PRC which has been produced by a PRC producer or jointly produced by a PRC producer and a foreign producer, and which meets the requirements of the relevant laws and regulations of the PRC
"commercial theatre"	a theatre owned or operated by an exhibitor, excluding theatres associated with museums, zoos, aquaria and other destination entertainment sites which do not play commercial films
"distributor"	an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres
"exhibitor"	exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules

"full revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for a portion of that exhibitor's box office generated from IMAX films over the term of the arrangement, and no, or a relatively small, upfront payment
"Hollywood film"	an imported motion picture for theatrical release in the PRC which has been produced by one or more foreign producer(s) and the importation and release of such motion picture has been permitted in accordance with the relevant laws and regulations of the PRC
"Hollywood studio"	a studio producing Hollywood films
"hybrid revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for an upfront fee that is typically half of the payment under a sales arrangement and a portion of that exhibitor's box office generated from IMAX films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement
"IMAX DMR"	the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX film
"IMAX film"	a film converted from a conventional film using IMAX DMR technology
"IMAX Original Film"	any IMAX film invested in, produced or co-produced by IMAX Corporation and released to IMAX theatres, and/or for which IMAX Corporation owns and/or controls its theatrical distribution rights
"IMAX theatre"	any movie theatre in which an IMAX screen is installed
"multiplex"	a movie theatre with more than one screen for the exhibition of films
"revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for, among other things, a portion of that exhibitor's box office generated from IMAX films over the term of the arrangement; our revenue sharing arrangements are either full revenue sharing arrangements or hybrid revenue sharing arrangements (See the separate glossary explanations for these terms)

“sales arrangement”	an arrangement with an exhibitor pursuant to which we sell that exhibitor an IMAX theatre system for a fee and the exhibitor agrees to pay us on-going royalty fees for use of the IMAX brand and technology over the term of the arrangement
“studio”	an organisation that produces films (which may include all or some of script writing, financing, production team and equipment sourcing, casting, shooting and post production), owns the copyright to the films it produces and works with distributors to release those films at theatres
“take rate”	a film studio’s share of box office generated from a particular film, after making certain tax and other deductions
“theatre circuit”	an organisation that distributes newly released films to theatres within that circuit; every theatre in the PRC must be affiliated with a theatre circuit

By Order of the Board
IMAX China Holding, Inc.
Zi Maggie Chen
Company Secretary

Hong Kong, 27 February 2019

As at the date of this announcement, the directors of the Company are:

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

Non-Executive Directors:
Richard Gelfond
Ruigang Li
Megan Colligan

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

In the event of any inconsistency between the English version and the Chinese version of this announcement, the English version shall prevail.