IMAX CHINA HOLDING, INC.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1970)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019,

FINAL DIVIDEND ANNOUNCEMENT

AND

INSIDE INFORMATION OUR CONTROLLING SHAREHOLDER IMAX CORPORATION RELEASED ITS FOURTH QUARTER AND FULL YEAR 2019 FINANCIAL RESULTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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$0.156 per share) to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect to the book closure date, record date and payment date, the proposed 2019 final dividend is expected to be distributed to shareholders on or around 30 June 2020. There will be no scrip dividend option for the 2019 final dividend.

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 19 February 2020 (approximately 4:07 p.m., New York time), announced its fourth quarter and year ended 31 December 2019 financial results and on 19 February 2020 (approximately 5:00 p.m., New York time), released its annual report and results for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

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

2020 OUTLOOK

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

LETTER TO SHAREHOLDERS

Dear Shareholders,

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

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

- Record revenue of $124.3 million, up 5.8% year-on-year;

- Record IMAX China box office of $365.8 million, up 8.7% compared to 2018; or up 14% in local currency in mainland China, significantly outperforming industry growth of 5%[1];

- Record-breaking IMAX China box office *of* $83.5 million for *Avengers: Endgame*, shot entirely with IMAX Cameras, representing 13% of the film's total box office and becoming IMAX China's highest-grossing title;

- Stable same-store sales, in local currency, against network growth of 12%, that included 717 total theatres by the end of 2019;

- Adjusted EBITDA of $68.8 million and adjusted net income of $44.6 million;

- *The Wandering Earth* setting a new record as IMAX China's highest-grossing local language title with $47.9 million box office;

- *Ne Zha* generated a record $35.2 million in IMAX China theatres and claimed the highest-grossing IMAX China animation title and second-highest release in China's film history;

- Record local language movie box office of $109 million, up 15% compared to 2018, representing 31% of IMAX China total box office;

- Continued momentum of new theaters signings with 64 for the year, including a 40-theater expanded partnership deal with CJ CGV; and

- Strong adoption of our new technology with 40 IMAX® with Laser systems as of year-end 2019.

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

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

We also believe this unfortunate extraordinary event, when it ultimately stabilizes, will not impact the long-term strength of IMAX China's business given our strong franchise, proven offering in the market and China's strong demand for quality content and social entertainment experiences. Our belief is that when it is safe to do so, Chinese consumers will be eager to get out of their homes and return to shopping malls and cinema complexes for out of home entertainment, driving a positive rebound in box office similar to what we observed in Hong Kong post-SARS epidemic in 2003.

The repercussions of this health crisis in China will have a material impact on the first quarter of 2020. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak in future reporting periods for 2020 may also be material. This will depend on future developments, however, assuming the resumption of business in the near future, we believe four of the Chinese New Year titles we were slated to program over the holiday, will ultimately be released later this year, and possibly on separate dates, to avoid direct competition with each other and optimize box office. As for installations, our schedule tends to show very strong seasonality towards the second half of the year, with the first quarter historically being our slowest quarter, contributing only single-digit percentage of our full-year installs. At this time however the ultimate financial impact on 2020 and duration of theatre closures cannot be fully ascertained.

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

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

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

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

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

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

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

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

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

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

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

[1] Source: China Film Administration

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

	Notes	Years Ended 31 December **2019**	2018
Revenues	*4*	**124,294**	117,520
Cost of sales		**(47,647)**	(42,269)
Gross profit	*4*	**76,647**	75,251
Selling, general and administrative expenses		**(16,465)**	(16,105)
Restructuring expenses and associated impairments		**—**	(112)
Other operating expenses		**(7,017)**	(6,702)
Operating profit		**53,165**	52,332
Interest income		**1,771**	1,622
Interest expense		**(93)**	—
Profit before income tax		**54,843**	53,954
Income tax expense	*5*	**(11,950)**	(11,189)
Profit for the year, attributable to owners of the Company		**42,893**	42,765
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		**(2,898)**	(8,273)
Items that may not be subsequently reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")		**(3,400)**	(2,018)
Other comprehensive loss:		**(6,298)**	(10,291)
Total comprehensive income for the year, attributable to owners of the Company		**36,595**	32,474
Profit per share attributable to owners of the Company — basic and diluted (expressed in U.S. dollars per share):			
From profit for the year — basic	*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)

	Notes	As at 31 December 2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment		**105,348**	98,471
Other assets		**14,934**	3,271
Deferred income tax asset	*7*	**3,143**	2,928
Variable consideration receivable from contracts		**3,299**	3,488
Financing receivables	*8*	**48,056**	42,000
Interests in a joint venture		**—**	—
		174,780	150,158
Current assets			
Other assets		**2,472**	2,405
Film assets		**116**	221
Inventories		**5,237**	3,434
Prepayments		**1,815**	3,399
Variable consideration receivable from contracts		**374**	—
Financing receivables	*8*	**10,938**	8,785
Trade and other receivables	*9*	**43,227**	40,717
Cash and cash equivalents		**89,308**	120,224
		153,487	179,185
Total assets		**328,267**	329,343
LIABILITIES			
Non-current liabilities			
Accruals and other liabilities		**829**	—
Deferred revenue		**24,920**	23,646
		25,749	23,646
Current liabilities			
Trade and other payables	*10*	**15,170**	18,395
Accruals and other liabilities		**11,394**	8,838
Income tax liabilities		**4,045**	6,334
Deferred revenue		**12,878**	18,453
		43,487	52,020
Total liabilities		**69,236**	75,666

	Notes	As at 31 December **2019**	2018
EQUITY			
Equity attributable to owners of the Company			
Share capital		**35**	36
Share premium and reserves		**270,327**	307,865
Accumulated deficit		**(11,331)**	(54,224)
Total equity		**259,031**	253,677
Total equity and liabilities		**328,267**	329,343

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

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

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

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- reliance on previous assessments on whether leases are onerous;

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

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

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

New standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. 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	
	2019	2018
Revenue		
Network business		
Film	**28,128**	26,059
Revenue sharing arrangements — contingent rent	**24,791**	21,619
	52,919	47,678
Theatre business		
Sales and sales-type lease arrangements	**41,543**	42,455
Revenue sharing arrangements — upfront fees	**7,162**	6,604
Theatre system maintenance	**21,387**	19,224
Other theatre	**941**	1,316
	71,033	69,599
New business and other	**342**	243
Total	**124,294**	117,520

	Years Ended 31 December	
	2019	2018
Gross profit		
Network business		
Film	**23,170**	21,169
Revenue sharing arrangements — contingent rent	**11,570**	9,806
	34,740	30,975
Theatre Business		
Sales and sales-type lease arrangements	**27,308**	28,962
Revenue sharing arrangements — upfront fees	**1,198**	1,845
Theatre system maintenance	**12,869**	12,822
Other theatre	**366**	585
	41,741	44,214
New business and other	**166**	62
Total gross profit	**76,647**	75,251
Selling, general and administrative expenses	**(16,465)**	(16,105)
Restructuring expenses and associated impairments	**—**	(112)
Other operating expenses	**(7,017)**	(6,702)
Interest income	**1,771**	1,622
Interest expense	**(93)**	—
Profit before income tax	**54,843**	53,954

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

Significant Customers

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

Customer A

Revenues of approximately $28.9 million in 2019 (2018: $26.9 million) are derived from a single external customer. These revenues are attributable to revenue sharing arrangements, theatre system maintenance, sales arrangements, film and other segments.

Customer B

Revenues of approximately $23.0 million in 2019 (2018: $21.0 million) are derived from a related party. These revenues are attributable to the film, theatre system maintenance and other segments.

No other single customers comprises of more than 10% of total revenues in 2019 or 2018.

Supplemental Information

(b) Depreciation and amortisation

	Years Ended 31 December	
	2019	2018
Theatre system maintenance	**370**	173
Revenue sharing arrangements	**11,920**	9,955
Film business	**989**	1,320
New business and other	**—**	72
Corporate and other non-segment specific assets	**1,229**	562
Total	**14,508**	12,082

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

	Years Ended 31 December	
	2019	2018
Revenue sharing arrangements	**475**	302
Corporate and other non-segment specific assets	**—**	15
Total	**475**	317

5. Income tax expense

	Years Ended 31 December	
	2019	2018
Current income tax:		
Current tax on profits for the year	**(12,244)**	(11,993)
Adjustments in respect of prior years	**35**	280
Total current income tax	**(12,209)**	(11,713)
Deferred income tax:		
Origination and reversal of temporary differences	**259**	524
Total deferred income tax	**259**	524
Income tax expense	**(11,950)**	(11,189)

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

	Years Ended 31 December	
	2019	2018
Profit before tax	**54,843**	53,954
Tax calculated at domestic tax rates applicable to profits in all respective countries	**(12,088)**	(11,820)
Tax effects of:		
Income not subject to tax	**838**	915
Expenses not deductible for tax purposes	**(382)**	(85)
Withholding taxes	**(237)**	(282)
Other	**(116)**	(197)
Adjustment in respect of prior years	**35**	280
Tax charge	**(11,950)**	(11,189)

The applicable tax rate reflects the impact of the income tax refund of $1.3 million for the year ended 31 December 2019 (2018: $1.4 million). For the year ended 31 December 2019, the weighted average applicable tax rate was 21.8% (2018: 20.7%). The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

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	
	2019	2018
Profit for the year	**42,893**	42,765
Weighted average number of common shares (in '000s):		
Issued and outstanding, beginning of year	**356,255**	358,125
Weighted average number of shares (decrease) increased during the year	**(4,312)**	173
Weighted average number of shares used in computing basic earnings per share	**351,943**	358,298
Adjustments for:		
Stock options	**2,118**	2,927
Restricted share units	**551**	322
Weighted average number of shares used in computing diluted earnings per share	**354,612**	361,547

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 31 December 2017	104	1,560	1,627	—	3,291
Adjustment on adoption of IFRS 15	—	—	—	(763)	(763)
As at 1 January 2018	104	1,560	1,627	(763)	2,528
Credited (charged) to profit or loss	5	(205)	625	99	524
Exchange difference	(5)	(65)	(42)	(12)	(124)
As at 31 December 2018	104	1,290	2,210	(676)	2,928
(Charged) credited to profit or loss	(5)	(181)	629	(184)	259
Exchange difference	(1)	(14)	(30)	1	(44)
As at 31 December 2019	98	1,095	2,809	(859)	3,143

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

No deferred income tax liability has been provided for the People's Republic of China ("PRC") withholding tax that would be payable on the unremitted earnings totalling $203.1 million at 31 December 2019 (2018: $165.4) million. Such earnings are expected to be retained by the PRC subsidiaries and not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

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	
	2019	2018
Gross minimum finance lease payments receivable	**11,440**	3,703
Unearned finance income	**(337)**	(15)
Minimum finance lease payments receivable	**11,103**	3,688
Accumulated allowance for uncollectible amounts	**—**	—
Net investment in finance leases	**11,103**	3,688
Gross financed sales receivables	**61,593**	61,536
Unearned finance income	**(13,702)**	(14,439)
Financed sales receivables	**47,891**	47,097
Accumulated allowance for uncollectible amounts	**—**	—
Net financed sales receivables	**47,891**	47,097
Total financing receivables	**58,994**	50,785

	As at 31 December 2019	2018
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1,267**	461
Later than one year and no later than five years	**4,621**	1,579
Later than five years	**5,552**	1,663
Total gross investment in finance leases	**11,440**	3,703
Gross financed sales receivables may be analysed as follows:		
No later than one year	**13,167**	11,708
Later than one year and no later than five years	**31,616**	31,017
Later than five years	**16,810**	18,811
Total financed sales receivables	**61,593**	61,536
Net investment in finance leases may be analysed as follows:		
No later than one year	**1,213**	453
Later than one year and no later than five years	**4,458**	1,572
Later than five years	**5,432**	1,663
Total net investment in finance leases	**11,103**	3,688
Net financed sales receivables may be analysed as follows:		
No later than one year	**9,725**	8,332
Later than one year and no later than five years	**23,486**	22,293
Later than five years	**14,680**	16,472
Total net financed sales receivables	**47,891**	47,097

As at 31 December 2019, the financed sales receivables had a weighted average effective interest rate of 8.3% (2018: 8.4%).

As at 31 December 2019, 98% (2018: 99%) of the Group's financing receivables were in good standing.

9. Trade and other receivables

	As at 31 December	
	2019	2018
Trade receivables	**27,796**	21,903
Less: provision for impairment of trade receivables	**(691)**	(404)
Trade receivables — net	**27,105**	21,499
Receivables from IMAX Corporation	**11,588**	13,427
Loan and interest receivables from a joint venture	**513**	509
Less: provision for impairment of loan and interest receivable	**(391)**	(207)
Loan and interest receivable from a joint venture — net	**122**	302
Other accrued receivables	**4,412**	5,489
	43,227	40,717

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

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

	As at 31 December	
	2019	2018
0–30 days	**7,973**	8,494
31–60 days	**2,618**	2,788
61–90 days	**3,419**	1,950
Over 90 days	**25,374**	22,098
	39,384	35,330

As at 31 December 2019, trade receivables of $39.4 million (2018: $35.3 million) were fully performing.

As at 31 December 2019, trade receivables of $24.7 million (2018: $21.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and from whom the Company, based on past experience, believes the overdue amounts can be recovered, as well as related party receivables. The aging analysis of these trade receivables, including receivables from IMAX Corporation, is as follows:

	As at 31 December	
	2019	2018
Over 90 days	**24,683**	21,694

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

	As at 31 December	
	2019	2018
Over 90 days	**1,082**	611

At 31 December 2019, 42% (2018: 31%) of the Group's over 90 days trade and other receivables balance relates to receivables aged over one year, 44% (2018: 34%) of which do not bear interest, have no fixed repayment terms and are due on demand from IMAX Corporation.

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

	As at 31 December	
	2019	2018
US$	**10,799**	8,556
RMB	**32,345**	32,089
Other currencies	**83**	72
	43,227	40,717

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

	As at 31 December	
	2019	2018
As at 1 January	**611**	321
Provision for receivables impairment	**483**	328
Write-off	**—**	(23)
Exchange differences	**(12)**	(15)
As at 31 December	**1,082**	611

During the year ended 31 December 2019, the Group recorded a net provision of $0.5 million (2018: $0.3 million) related to trade receivables.

10. Trade and other payables

	As at 31 December	
	2019	2018
Trade payables	**1,433**	2,094
Other payables	**810**	1,321
Amounts due to IMAX Corporation	**12,927**	14,980
	15,170	18,395

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

	As at 31 December	
	2019	2018
0–30 days	**6,333**	8,824
31–60 days	**1,158**	1,609
61–90 days	**94**	761
Over 90 days	**7,585**	7,201
	15,170	18,395

As at 31 December 2019 and 2018, the carrying amounts of trade and other payables approximated their fair values due to short maturity. Trade and other payables over 90 days primarily consist of amounts due to IMAX Corporation.

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

	As at 31 December	
	2019	2018
RMB	**6,361**	10,245
US$	**8,576**	7,969
Other	**233**	181
	15,170	18,395

11. Dividends

	Years Ended 31 December	
	2019	2018
Dividends recognised as distribution during the year:		
2018 Final — HK$0.157 (2017: HK$0.314) per share	**7,131**	14,355
2019 Interim — HK$0.156 (2018: HK$0.157) per share	**6,984**	7,175
	14,115	21,530

As approved by the shareholders at the Annual General Meeting held on 6 June 2019, 2018 final dividend of $0.02 per share (equivalent to approximately HK$0.157 per share) was distributed to shareholders on 28 June 2019. As recommended by the Board, an interim dividend for the six months ended 30 June 2019, of $0.02 per share (equivalent to HK$0.157 per share), was distributed to shareholders on 30 August 2019.

During the board meeting held on 19 February 2020, the Board recommended a final dividend of $0.02 per share (equivalent to approximately HK$0.156 per share) for the year ended 31 December 2019 to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect of the book closure date, record date and payment date, the proposed 2019 final dividend is expected to be distributed to shareholders on or around 30 June 2020. There will be no scrip dividend option for the 2019 final dividend. The proposed dividend has not been provided for in the consolidated financial statement for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

History and Introduction

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

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

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

Network Business

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

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

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

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

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

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

Theatre Business

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

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

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

New Business and Other

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

IMAX Technology

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

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

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

Our Partnerships

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

Our Competitive Strengths

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

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

Our Business Strategies

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

- Increasing the number of Chinese language films we release, per year and the percentage of annual box office we generate from these films;
- Strengthening our cooperation with PRC studios and filmmakers, including incorporation of IMAX DNA within local films such as using IMAX Cameras and expanded aspect ratios as done previously with certain Hollywood Films;
- Expanding the IMAX theatre network in the PRC which includes the rollout of our newly introduced IMAX with Laser technology;
- Increasing the number of strategic revenue sharing arrangements, that deliver acceptable returns, with our exhibitor partners;
- Maintaining our market leading position as a provider of a premium cinematic experience;
- Continuing to invest in the IMAX brand in Greater China; and
- Leveraging the IMAX brand to develop and invest in complementary businesses.

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

Impact of Coronavirus

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

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Expansion of the IMAX Theatre Network in Greater China

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

Network Expansion

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

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

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

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

Backlog

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

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

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

Box Office Success of IMAX Films

Film Slate

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

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

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

Film Release Date and Film Mix

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

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

Proportion of Revenue Sharing Arrangements

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

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

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

Impact on Our Profitability

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

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

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

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

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

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

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

Our Ability to Maintain Our Pricing and Profit Margins

A significant portion of our operating costs are relatively fixed for our Network Business, such as

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

Market risks

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

Seasonality Effects

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

Currency Fluctuations

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

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

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

Revenue

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

Network Business

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

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

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

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

Theatre Business

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

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

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

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

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

New Business and Other

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

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

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

Cost of Sales

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

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

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

Gross Profit and Gross Profit Margin

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

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

Selling, General and Administrative Expenses

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

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

Restructuring Expenses and Associated Impairments

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

Other Operating Expenses

Other operating expenses primarily include the annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology Licence Agreements and the Trademark Licence Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for FY2019 and FY2018 were US$7.0 million and US$6.7 million, respectively.

Interest Income

Interest income represents interest earned on various term deposits and a related party short-term loan receivable we hold. None of the deposits had a term of more than 90 days. Our interest income for FY2019 and FY2018 was US$1.8 million and US$1.6 million, respectively.

Income Tax Expenses

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

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

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Consolidated Statement of Comprehensive Income

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

	FY2019		FY2018	
	US$'000	*%*	*US$'000*	*%*
Revenues	**124,294**	**100.0%**	117,520	100.0%
Cost of sales	**(47,647)**	**(38.3%)**	(42,269)	(36.0%)
Gross profit	**76,647**	**61.7%**	75,251	64.0%
Selling, general and administrative expenses	**(16,465)**	**(13.2%)**	(16,105)	(13.7%)
Restructuring expenses and associated impairments	**—**	**—**	(112)	(0.1%)
Other operating expenses	**(7,017)**	**(5.6%)**	(6,702)	(5.7%)
Operating profit	**53,165**	**42.8%**	52,332	44.5%
Interest income	**1,771**	**1.4%**	1,622	1.4%
Interest expense	**(93)**	**(0.1%)**	—	0.0%
Profit before income tax	**54,843**	**44.1%**	53,954	45.9%
Income tax expense	**(11,950)**	**(9.6%)**	(11,189)	(9.5%)
Profit for the year, attributable to owners of the Company	**42,893**	**34.5%**	42,765	36.4%
Other comprehensive loss:				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustments	**(2,898)**	**(2.3%)**	(8,273)	(7.0%)
Items that may not be subsequently reclassified to profit or loss:				
Change in fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	**(3,400)**	**(2.7%)**	(2,018)	(1.7%)
Other comprehensive loss:	**(6,298)**	**(5.1%)**	(10,291)	(8.8%)
Total comprehensive income for the year, attributable to owners of the Company	**36,595**	**29.4%**	32,474	27.6%

Adjusted Profit

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

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

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

FY2019 COMPARED WITH FY2018

Revenue

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

Network Business

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

Film

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

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

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

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

Revenue Sharing Arrangements — Contingent Rent

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

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

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

Theatre Business

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

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

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

Note:

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

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

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

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

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

Notes:

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

Sales and Sale-type Lease Arrangements

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

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

Revenue Sharing Arrangements — Upfront Fees

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

Theatre System Maintenance

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

New Business and Other

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

Cost of Sales

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

Network Business

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

Film

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

Revenue Sharing Arrangements — Contingent Rent

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

Theatre Business

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

Sales and Sales-type Lease Arrangements

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

Revenue Sharing Arrangements — Upfront Fees

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

Theatre System Maintenance

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

New Business and Other

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

Gross Profit and Gross Profit Margin

Our gross profit was US$76.6 million in FY2019, or 61.7% of total revenue compared to US$75.3 million in FY2018, or 64.0% of total revenue. The increase in gross profit was largely attributable to an increase of US$3.8 million of our Network Business, which was partially offset by a decrease of US$2.5 million in our Theatre Business. The decrease in gross profit margin was largely attributable to higher cost mix of systems due to installation of IMAX with Laser in FY2019.

Network Business

The gross profit from our Network Business increased 12.2% from US$31.0 million in FY2018 to US$34.7 million in FY2019, and the gross profit margin for our Network Business increased slightly from 65.0% in FY2018 to 65.6% in FY2019. The increase was primarily due to an increase in our overall box office revenue, a decrease of one-time upfront costs related to fewer installations under full revenue sharing arrangements, and partly offset by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

Film

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

Revenue Sharing Arrangements — Contingent Rent

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

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

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

Theatre Business

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

Sales and Sales-type Lease Arrangements

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

Revenue Sharing Arrangements — Upfront Fees

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

Theatre System Maintenance

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

New Business and Other

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

Selling, General and Administrative Expenses

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

Restructuring Expenses and Associated Impairments

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

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

Other Operating Expenses

Other operating expenses increased 4.7% from US$6.7 million in FY2018 to US$7.0 million in FY2019, primarily due to an increase of US$0.4 million in annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology License Agreements and the Trademark License agreements.

Interest Income

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

Income Tax Expense

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

Profit for the Year

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

Adjusted Profit

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

	As at 31 December	
	2019	2018
Cash and cash equivalents denominated in US$	**$ 20,842**	$ 64,664
Cash and cash equivalents denominated in RMB (in thousands)	**¥ 474,325**	¥ 377,779
Cash denominated in Hong Kong dollars HK$ (in thousands)	**$ 3,565**	$ 4,159

CAPITAL MANAGEMENT

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

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

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

CASH FLOW ANALYSIS

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

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

Cash From Operating Activities

FY2019

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

FY2018

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

Cash Used in Investing Activities

FY2019

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

FY2018

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

Cash Used in Financing Activities

FY2019

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

FY2018

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

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

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

Capital Commitments

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

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films and investment in an equity security. During FY2019 and FY2018, our capital expenditures were US$34.4 million and US$25.1 million, respectively.

Going forward, with respect to our Theatre Business, we plan to allocate a significant portion of our capital expenditures to the continued expansion of the IMAX theatre network under revenue sharing arrangements to execute on our existing contractual backlog and future signings. We expect to incur capital expenditures of approximately US$20 million in FY2020, which will be primarily used to expand the IMAX theatre network under full revenue sharing arrangements and commercial laser upgrades.

Contingent Liabilities

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

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

As at 31 December 2019, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our commitments and contingent liabilities since 31 December 2019.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US$39.3 million in FY2019 and US$56.4 million in FY2018. As the IMAX theatre network continues to grow, we believe our cash flow from operating activities will continue to increase and fund existing business operations and any initial capital expenditures required under revenue sharing arrangements.

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

STATEMENT OF INDEBTEDNESS

As at 31 December 2019:

- except for an unsecured revolving facility for up to RMB200 million, we did not have any bank borrowings or committed bank facilities;

- we did not have any borrowing from IMAX Corporation or any related parties; and

- we did not have any hire purchase commitments or bank overdrafts.

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

RECENT DEVELOPMENTS

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

OFF BALANCE SHEET ARRANGEMENTS

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

KEY FINANCIAL RATIOS

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

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

Notes:

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

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

Gearing Ratio

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

Adjusted Profit Margin

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

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Pursuant to the Company's dividend policy, in recommending or declaring dividends, the Company should maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholders value. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, statutory and regulatory restrictions and other factors that our Board considers relevant. Our Board recommended the payment of a final dividend, for the 2019 fiscal year, of US$0.02 per share (equivalent to approximately HK$0.156 per share). Distribution of any final dividend shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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

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

DIVIDEND

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

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

MATERIAL ACQUISITIONS OR DISPOSALS

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

SIGNIFICANT INVESTMENTS

We are entitled to IMAX Hong Kong Holding's share of any distributions and dividends paid by TCL-IMAX Entertainment in respect of profit from Greater China as a result of a preferred share we hold in IMAX Hong Kong Holding, which holds 50% of TCL-IMAX Entertainment, a 50:50 joint venture between IMAX Hong Kong Holding (which is indirectly wholly owned by IMAX Corporation) and Sino Leader (Hong Kong) Limited (which is wholly owned by TCL Multimedia Technology Holdings Limited). TCL-IMAX Entertainment engages in the design, development, manufacturing and global sale of premium home theatre systems incorporating components of IMAX's projection and sound technology adapted for a broader home environment. TCL-IMAX Entertainment has commenced offering home theatre systems in Greater China in the second half of 2016. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the year ended 31 December 2019.

The purpose of the investment was to enable the Group to share in any profit earned in Greater China by TCL-IMAX Entertainment. We do not have any management or operational role, responsibilities or rights in TCL-IMAX Entertainment, nor are we subject to any funding obligations (either in respect of capital funding or bearing of losses) in relation to TCL-IMAX Entertainment.

In February 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, subscribed for 7,949,000 shares (representing approximately 0.706% equity at the time) in Maoyan with the amount of US$15.2 million at the final offer price pursuant to the global offering of the share capital of Maoyan. This investment is subject to, among other restrictions, a lock-up period of six months following 4 February 2019, the date of Maoyan's global offering. We did not receive any distributions or dividends from Maoyan for the year ended 31 December 2019.

The purpose of the investment was to develop strategic collaborations with Maoyan and enable the Group to leverage Maoyan's technical advantages to, among others, more effectively market future content to consumers. We do not have any management or operational role, responsibilities or rights in Maoyan, nor are we subject to any further funding obligations (either in respect of capital funding or bearing of losses) in relation to Maoyan.

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

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

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, the Company conducted share repurchases of 8,051,500 listed Shares on the Stock Exchange pursuant to a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 3 May 2018 and resolutions of the Board adopted on 27 October 2018, and a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 6 June 2019 and resolutions of the Board adopted on 6 June 2019. The following table outlines details of the shares repurchased on a monthly basis.

Month	Number of shares repurchased	Highest price per share HK$	Lowest price paid per share HK$	Average price paid per share HK$	Aggregate price paid HK$
March 2019	709,800	19.84	19.04	19.53	13,863,730.52
May 2019	4,377,100	20.70	16.96	18.48	80,898,142.44
June 2019	1,938,800	19.56	18.30	19.02	36,870,693.79
August 2019	749,500	18.70	16.02	18.12	13,582,723.64
September 2019	276,300	18.32	16.60	17.31	4,782,367.62
	8,051,500				149,997,658.01

In addition, 122,901 listed Shares, 69,903 listed Shares and 131,726 listed Shares were purchased through Computershare Hong Kong Trustees Limited, the trustee engaged by the Company for administering its share option schemes, on 10 June 2019 at an average price per share of HK$19.2408, on 1 August 2019 at an average price per share of HK$18.2607, and on 16 December 2019 at an average price per share of HK$17.3436, respectively, for satisfying, or preparing for the satisfaction of, the vesting of the relevant options and/or restricted share units.

Save for the above, there have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares during the year ended 31 December 2019 (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.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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 were updated on 30 November 2018. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, maintain an appropriate relationship with the Company's 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 2019.

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 2019 in March 2020 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 2019.

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 69.74% of the issued share capital of the Company.

On 19 February 2020 (approximately 4:07 p.m., New York time), IMAX Corporation made an announcement regarding its financial results for the fourth quarter and full year ended 31 December 2019 (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 SEC, please visit: https://www.sec.gov/Archives/edgar/data/921582/000119312520041887/d574614dex991.htm. Unless otherwise provided therein, all dollar amounts in the Earnings Release and Earnings Call are denominated in United States dollars.

On 19 February 2020 (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 2019 with the SEC, 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 SEC, please visit: https://www.sec.gov/ix?doc=/Archives/edgar/data/921582/000156459020005319/imax-10k_20191231.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

GENERAL

In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday, and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. See "Risk Factors — The Company's results of operations are expected to be adversely impacted by the recent coronavirus outbreak in China" in Item 1A of this 2019 Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Impact of Coronavirus" in Item 7 of this 2019 Form 10-K and note 29 to the accompanying audited consolidated financial statements in Item 8 of this 2019 Form 10-K.

IMAX THEATER NETWORK

Greater China is currently the Company's largest market, measured by revenues, with approximately 31% of overall revenues generated from the Company's China operations in 2019. As at December 31, 2019, the Company had 717 theaters operating in Greater China and an additional 252 new theaters (plus 1 upgrade) in backlog that are scheduled to be installed in Greater China by 2023. The Company's backlog in Greater China represents 47.6% of the Company's current backlog for new and upgraded 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, including both installed and backlog theaters, is for 359 theater systems, of which 345 theater systems are under the parties' joint revenue sharing arrangement.

The Company indirectly owns approximately 69.74% 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 2019, 60 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 70 films in 2018.

To date, the Company has announced the following 22 DMR titles to be released in 2020 to the IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

- *Invasion: The* IMAX *Experience* (Art Pictures Studio, January 2020, Russia);
- *1917: The* IMAX *Experience* (Universal Pictures (domestic) and eOne International (international), January 2020) IMAX expanded aspect ratio;

- *Bad Boys For Life: The* IMAX *Experience* (Sony Pictures, January 2020);
- *Dolittle: The* IMAX *Experience* (Universal Pictures, January 2020);
- *Birds of Prey: The* IMAX *Experience* (Warner Bros. Pictures, February 2020);
- *The Invisible Man: The* IMAX *Experience* (Universal Pictures, February 2020);
- *Bloodshot: The* IMAX *Experience* (Sony Pictures, February 2020/Domestic March 2020);
- *Onward: The* IMAX *Experience* (Walt Disney Studios, March 2020);
- *A Quiet Place Part II: The* IMAX *Experience* (Paramount Pictures, March 2020);
- *I Still Believe: The* IMAX *Experience* (Lionsgate, March 2020);
- *Mulan: The* IMAX *Experience* (Walt Disney Studios, March 2020);
- *Beastie Boys Story: The* IMAX *Experience* (Apple, April 2020, select global markets);
- *No Time to Die: The* IMAX *Experience* (United Artists Releasing (domestic) and Universal Pictures (international), April 2020) filmed with IMAX cameras;
- *Black Widow: The* IMAX *Experience* (Walt Disney Studios, May 2020);
- *Fast & Furious 9: The* IMAX *Experience* (Universal Pictures, May 2020);
- *Wonder Woman 1984: The* IMAX *Experience* (Warner Bros. Pictures, June 2020) filmed with IMAX cameras;
- *Top Gun: Maverick: The* IMAX *Experience* (Paramount Pictures, June 2020) filmed with IMAX cameras;
- *Tenet: The* IMAX *Experience* (Warner Bros. Pictures, July 2020) filmed with IMAX cameras;
- *Detective Chinatown 3: The* IMAX *Experience* (Wanda Studios, TBD 2020, China) filmed with IMAX cameras;
- *The Rescue: The* IMAX *Experience* (Maoyan, TBD 2020, China);
- *Vanguard: The* IMAX *Experience* (Tencent, TBD 2020, China); and
- *Leap: The* IMAX *Experience* (Lian Ray Pictures, TBD 2020, China).

In addition, the Company will be releasing an IMAX original production, *Asteroid Hunters*, in April 2020.

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 2020.

As noted above, the Company is also engaged in discussions regarding new technologies and new content in connection with bringing unique events outside of films to the global IMAX theater network.

New Business Initiatives

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 as General Partner, to help fund Mandarin language commercial films. No investments in Mandarin language films were made in 2019.

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 outfitted 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. No such charge was recorded in the year ended December 31, 2019. For additional information refer to note 26 in Item 8 of this 2019 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:

	2019 Theater Network Base				2018 Theater Network Base			
	Commercial Multiplex	**Commercial Destination**	**Institutional**	**Total**	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	**371**	**4**	**33**	**408**	365	4	33	402
Canada	**39**	**2**	**7**	**48**	39	2	7	48
Greater China[1]	**702**	**—**	**15**	**717**	624	—	15	639
Western Europe	**115**	**4**	**10**	**129**	101	4	10	115
Asia (excluding Greater China)	**119**	**2**	**2**	**123**	112	2	3	117
Russia & the CIS	**68**	**—**	**—**	**68**	62	—	—	62
Latin America[2]	**50**	**1**	**12**	**63**	47	1	12	60
Rest of the World	**65**	**1**	**2**	**68**	59	1	2	62
Total	**1,529**	**14**	**81**	**1,624**	1,409	14	82	1,505

(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 21 to the accompanying audited consolidated financial statements in Item 8 of this 2019 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, 2019, represents 33.9% of the Company's network of theaters, 25.6% of the Company's theater system backlog and 16.5% of revenues.

Item 1A. Risk Factors

If any of the risks described below occurs, the Company's business, operating results and financial condition could be materially adversely affected.

The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that it deems immaterial, may also impair its business or operations.

The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects.

A significant portion of the Company's revenues and gross box office are generated by customers located outside the United States and Canada. Approximately 66%, 66% and 61% of the Company's revenues were derived outside of the United States and Canada in 2019, 2018 and 2017, respectively. As at December 31, 2019, approximately 73.6% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. The Company's network spanned 81 different countries as at December 31, 2019, and the Company expects its international operations to continue to account for an increasingly significant portion of its revenues in the future. There are a number of risks associated with operating in international markets that could negatively affect the Company's operations, sales and future growth prospects. These risks include:

- new restrictions on access to markets, both for theater systems and films;
- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements, including censorship of content that may restrict what films our theaters can present;
- fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;
- new tariffs, trade protection measures, import or export licensing requirements, trade embargoes, sanctions and other trade barriers;
- difficulties in obtaining competitively priced key commodities, raw materials and component parts from various international sources that are needed to manufacture quality products on a timely basis;
- imposition of foreign exchange controls in such foreign jurisdictions;
- dependence on foreign distributors and their sales channels;
- reliance on local partners, including in connection with joint revenue sharing arrangements;
- difficulties in staffing and managing foreign operations;
- inability to complete installations of or collect full payment on installations of theater systems;
- local business practices that can present challenges to compliance with applicable anti-corruption and bribery laws;
- difficulties in establishing market-appropriate pricing;
- less accurate and/or less reliable box office reporting;

- adverse changes in monetary and/or tax policies, and/or difficulties in repatriating cash from foreign jurisdictions (including with respect to China, where approval of the State Administration of Foreign Exchange is required);

- poor recognition of intellectual property rights;

- difficulties in enforcing contractual rights;

- inflation;

- requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries;

- harm to the IMAX brand from operating in countries with records of controversial government action, including human rights abuses; and

- political, economic and social instability.

In addition, changes in United States or Canadian foreign policy can present additional risks or uncertainties as the Company continues to expand its international operations. The Company recently entered into an agreement with AMC and the sovereign wealth fund of Saudi Arabia for a 12-theater deal. The Company previously announced a partnership with VOX Cinemas to open at least four theaters in Saudi Arabia. Opening and operating theaters in markets that have experienced geopolitical or sociopolitical unrest or controversy, including through partnerships with local entities, exposes the Company to the risks listed above as well as additional risks of operating in a volatile region. Such risks may negatively impact our business operations in such regions and may also harm our brand. Moreover, a deterioration of the diplomatic relations between the United States or Canada and a given country may impede our ability to operate theaters in such countries and have a negative impact on our financial condition and future growth prospects.

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

At present, Greater China is the Company's 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 2019. As at December 31, 2019, the Company had 717 theaters operating in Greater China with an additional 253 theaters in backlog, which represent 47.6% of the Company's current backlog and which are scheduled to be installed in Greater China by 2023. Of the systems currently scheduled to be installed in Greater China, 71.5% 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, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company's business could be adversely impacted.

The Company's results of operations are expected to be adversely impacted by the recent coronavirus outbreak in China.

In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. The repercussions of this health crisis in China will have a material adverse impact on the revenues generated by IMAX theater systems in the first quarter of 2020 and could impact other areas of the Company's business in China, including but not limited to the timely installation of theater systems in our backlog in China. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak on the Company's financial condition in future reporting periods may also be material as this will depend on future developments, including but not limited to the timing of theaters reopening, if and when delayed films are released, consumer behaviour and any potential construction or installation delays involving our exhibitor partners which are highly uncertain and cannot be accurately forecast.

The success of the IMAX theater network is directly related to the availability and success of IMAX DMR films for which there can be no guarantee.

An important factor affecting the growth and success of the IMAX theater network is the availability and strategic selection of films for IMAX theaters and the box office performance of such films. The Company itself produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, including both Hollywood and local language features converted into the Company's large format using the Company's IMAX DMR technology. In 2019, 60 IMAX DMR films were released by studios to the worldwide IMAX theater network. There is no guarantee that filmmakers and studios will continue to release films to the IMAX theater network, or that the films selected for release to the IMAX theater network will be commercially successful. The Company is directly impacted by the box office results for the films released to the IMAX network through its joint revenue sharing arrangements as well as through the percentage of the box office receipts the Company receives from the studios releasing IMAX DMR films, and the Company's continued ability to secure films, find suitable partners for joint revenue share arrangements and to sell IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company's control, including whether the film receives critical acclaim, the timing of its release, the success of the marketing efforts of the studio releasing the film, consumer preferences and trends in cinema attendance. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

In addition, as the Company's international network has expanded, the Company has signed deals with studios in other countries to convert their films to the Company's large format and release them to IMAX theaters. The Company may be unable to select films which will be successful in international markets or may be unsuccessful in selecting the right mix of Hollywood and local DMR films for a particular country or region, notably Greater China, the Company's largest market. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets.

The Company depends principally on commercial movie exhibitors to purchase or lease IMAX theater systems, to supply box office revenue under joint revenue sharing arrangements and under its sales and sales-type lease agreements and to supply venues in which to exhibit IMAX DMR films. The Company can make no assurances that exhibitors will continue to do any of these things.

The Company is unable to predict the pace at which exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company's existing exhibitor customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion, negotiate less favorable economic terms, or decide not to enter into transactions with the Company, the Company's revenues would not increase at an anticipated rate and motion picture studios may be less willing to convert their films into the Company's format for exhibition in commercial IMAX theaters. As a result, the Company's future revenues and cash flows could be adversely affected.

General political, social and economic conditions can affect the Company's business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.

The Company's success depends in part on general political, social and economic conditions and the willingness of consumers to purchase tickets to IMAX movies. If movie-going becomes less popular globally, the Company's business could be adversely affected, especially if such a decline occurs in Greater China. In addition, the Company's operations could be adversely affected if consumers' discretionary income falls as a result of an economic downturn. In recent years, the majority of the Company's revenue has been directly derived from the box office revenues of its films. Accordingly, a decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to visit movie theaters and spend discretionary income at movie theaters. In the event of declining box office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters. In addition, a significant portion of theaters in the Company's backlog are expected to be installed in newly built multiplexes. An economic downturn could impact developers' ability to secure financing and complete the buildout of these locations, thereby negatively impacting the Company's ability to grow its theater network.

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 81 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, 2019, the Company's sales backlog included 531 theater systems, consisting of 178 systems under sales or lease arrangements and 353 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.

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

Issuer Purchases of Equity Securities

In 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 repurchase program expired on June 6, 2019. In 2019, 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 June 6, 2019 (35,605,560 shares). The share repurchase program expires on the date of the 2020 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 2019, IMAX China repurchased 8,051,500 common shares at an average price of HKD $18.63 per share (U.S. $2.38).

The total number of shares purchased during the twelve months ended December 31, 2019, 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. The original soundtrack of a film to be exhibited in the IMAX theater network is re-mastered for the IMAX digital sound systems in connection with the IMAX DMR release. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in an optimal listening position. 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.

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting films with IMAX cameras to increase the audience's immersion in the film and taking advantage of the unique dimensions of the IMAX screen by projecting the film in a larger aspect ratio that delivers up to 26% more image onto a movie screen. *Avengers: Endgame*, the highest-grossing film in history, released in April 2019, was shot entirely using IMAX cameras. Collectively, the Company refers to those enhancements as "IMAX DNA". In addition, in 2019 *Alita: Battle Angel*, *Captain Marvel* and Disney's *The Lion King* were all released with select scenes specifically formatted for IMAX screens.

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, 2019, 67.2% of the Company's gross box office from IMAX DMR films was generated in international markets, as compared to 65.0% in the year ended December 31, 2018. 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 (particularly in China). During 2019, 18 local language IMAX DMR films including 14 in China and one in each of Japan, South Korea, India and Russia, were released to the IMAX theater network. The blockbuster *Ne Zha: the* IMAX *experience* was released in China in July 2019 and it is the Company's first Chinese animated local language film title. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2020 and beyond. In March 2019, the Company released an IMAX original production, *Superpower Dogs*.

To date, the Company has announced the following 22 DMR titles to be released in 2020 to the IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

- *Invasion: The* IMAX *Experience* (Art Pictures Studio, January 2020, Russia);

- *1917: The* IMAX *Experience* (Universal Pictures (domestic) and eOne International (international), January 2020) IMAX expanded aspect ratio;

- *Bad Boys For Life: The* IMAX *Experience* (Sony Pictures, January 2020);

- *Dolittle: The* IMAX *Experience* (Universal Pictures, January 2020);

- *Birds of Prey: The* IMAX *Experience* (Warner Bros. Pictures, February 2020);

- *The Invisible Man: The* IMAX *Experience* (Universal Pictures, February 2020);

- *Bloodshot: The* IMAX *Experience* (Sony Pictures, February 2020/Domestic March 2020);

- *Onward: The* IMAX *Experience* (Walt Disney Studios, March 2020);

- *I Still Believe: The* IMAX *Experience* (Lionsgate, March 2020);

- *A Quiet Place Part II: The* IMAX *Experience* (Paramount Pictures, March 2020);

- *Mulan: The* IMAX *Experience* (Walt Disney Studios, March 2020);

- *Beastie Boys Story: The* IMAX *Experience* (Apple, April 2020, select global markets);

- *No Time to Die: The* IMAX *Experience* (United Artists Releasing (domestic) and Universal Pictures (international), April 2020) filmed with IMAX cameras;

- *Black Widow: The* IMAX *Experience* (Walt Disney Studios, May 2020);

- *Fast & Furious 9: The* IMAX *Experience* (Universal Pictures, May 2020);

- *Wonder Woman 1984: The* IMAX *Experience* (Warner Bros. Pictures, June 2020) filmed with IMAX cameras;

- *Top Gun: Maverick: The* IMAX *Experience* (Paramount Pictures, June 2020) filmed with IMAX cameras;

- *Tenet: The* IMAX *Experience* (Warner Bros. Pictures, July 2020) filmed with IMAX cameras;

- *Detective Chinatown 3: The* IMAX *Experience* (Wanda Studios, TBD 2020, China) filmed with IMAX cameras;

- *The Rescue: The* IMAX *Experience* (Maoyan, TBD 2020, China);

- *Vanguard: The* IMAX *Experience* (Tencent, TBD 2020, China); and

- *Leap: The* IMAX *Experience* (Lian Ray Pictures, TBD 2020, China).

In addition, the Company will be releasing an IMAX original production, *Asteroid Hunters*, in April 2020.

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 2020.

As noted above, the Company is also engaged in discussions regarding new technologies and new content in connection with bringing unique events outside of movies to the global IMAX theater network.

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:

	2019 Theater Network Base				2018 Theater Network Base			
	Commercial Multiplex	**Commercial Destination**	**Institutional**	**Total**	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	**371**	**4**	**33**	**408**	365	4	33	402
Canada	**39**	**2**	**7**	**48**	39	2	7	48
Greater China[(1)]	**702**	**—**	**15**	**717**	624	—	15	639
Western Europe	**115**	**4**	**10**	**129**	101	4	10	115
Asia (excluding Greater China)	**119**	**2**	**2**	**123**	112	2	3	117
Russia & the CIS	**68**	**—**	**—**	**68**	62	—	—	62
Latin America[(2)]	**50**	**1**	**12**	**63**	47	1	12	60
Rest of the World	**65**	**1**	**2**	**68**	59	1	2	62
Total	**1,529**	**14**	**81**	**1,624**	1,409	14	82	1,505

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

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 3,318 IMAX theaters worldwide from 1,529 commercial multiplex IMAX theaters operating as at December 31, 2019. The Company believes that the majority of its future growth will come from international markets. As at December 31, 2019, 71.9% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 70.1% as at December 31, 2018. Revenues and gross box office derived from outside the United States and Canada continue to exceed revenues and gross box office from the United States and Canada. Risks associated with the Company's international business are outlined in "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" in Item 1A of Part I of this 2019 Form 10-K.

Greater China is currently the Company's largest market, measured by revenues, with approximately 31% of overall revenues generated from the Company's China operations in 2019. As at December 31, 2019, the Company had 717 theaters operating in Greater China with an additional 253 theaters in backlog that are scheduled to be installed by 2023. The Company's backlog in Greater China represents 47.6% of the Company's current backlog including upgrades. The Company's largest single international partnership is in China with Wanda Film ("**Wanda**"). Wanda's total, commitment to the Company is for 359 theater systems in Greater China (of which 345 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" and "Risk Factors — General political, social and economic conditions can affect the Company's business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems" in Item 1A of Part I of this 2019 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:

	2019 IMAX Commercial Multiplex Theater Network			
	Traditional JRSA	**Hybrid JRSA**	**Sale/ Sales-type lease**	**Total**
Domestic Total (United States & Canada)	**277**	**5**	**128**	**410**
International:				
Greater China	**357**	**106**	**239**	**702**
Asia (excluding Greater China)	**34**	**1**	**84**	**119**
Western Europe	**46**	**27**	**42**	**115**
Russia & the CIS	**—**	**—**	**68**	**68**
Latin America	**2**	**—**	**48**	**50**
Rest of the World	**15**	**—**	**50**	**65**
International Total	**454**	**134**	**531**	**1,119**
Worldwide Total	**731**	**139**	**659**	**1,529**

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

As at December 31, 2019, 277 (2018 — 273) of the 731 (2018 — 674) theaters under traditional joint revenue sharing arrangements in operation, or 37.9% (2018 — 40.5%) were located in the United States and Canada, with the remaining 454 (2018 — 401) or 62.1% (2018 — 59.5%) 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:

	2019 IMAX Theater Backlog			
	Traditional JRSA	**Hybrid JRSA**	**Sale/ Lease**	**Total**
Domestic Total (United States & Canada)	**128**	**3**	**9**	**140**
International:				
Greater China	**58**	**124**	**71**	**253**
Asia (excluding Greater China)	**9**	**—**	**35**	**44**
Western Europe	**11**	**13**	**7**	**31**
Russia & the CIS	**—**	**—**	**12**	**12**
Latin America	**3**	**—**	**11**	**14**
Rest of the World	**4**	**—**	**33**	**37**
International Total	**85**	**137**	**169**	**391**
Worldwide Total	**213**	**140**	**178**	**531**(1)

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

(1) Includes 144 new IMAX with Laser projection system configurations and 92 upgrades of existing locations to IMAX with Laser projection system configurations.

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

Approximately 73.6% of IMAX theater system arrangements in backlog as at December 31, 2019 are scheduled to be installed in international markets (2018 — 72.5%).

RESULTS OF OPERATIONS

Results of Operations Discussion for the Two Years Ended December 31, 2019

Overview

The Company reported net income of $58.6 million, or $0.95 per basic and diluted share, for the year ended December 31, 2019, as compared to net income of $33.6 million, or $0.53 per basic and diluted share, for the year ended December 31, 2018.

Net income for the year ended December 31, 2019 includes a $22.8 million charge, or $0.37 per diluted share (2018 — $22.2 million, or $0.35 per diluted share) for stock-based compensation, a $0.9 million charge, or $0.01 per diluted share for exit costs, restructuring charges and associated impairments (2018 — $9.5 million, or $0.15 per diluted share) and a $0.5 million charge, or $0.01 per diluted share (2018 — $nil) for the change in fair value of equity securities. In 2018, the Company also recognized a $11.7 million or $0.19 per diluted share, for a legal arbitration award related to one of the Company's litigation matters from 2006 and a $3.0 million charge, or $0.05 per diluted share, for executive transition costs.

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 change in fair value of equity securities, 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 $77.2 million, or $1.25 per diluted share, for the year ended December 31, 2019 as compared to adjusted net income of $70.2 million, or $1.11 per diluted share, for the year ended December 31, 2018.

The Company reported net income attributable to common shareholders of $46.9 million, or $0.76 per basic share and diluted share for the year ended December 31, 2019 (2018 — $22.8 million, or $0.36 per basic share and diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact attributable to common shareholders of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award, executive transition costs, the change in fair value of equity securities, 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 $64.8 million, or $1.05 per diluted share, for the year ended December 31, 2019 as compared to adjusted net income attributable to common shareholders of $57.8 million, or $0.91 per diluted share, for the year ended December 31, 2018.

Impact of Coronavirus

In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday, and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. The repercussions of this health crisis in China will have a material adverse impact on the revenues generated by IMAX theater systems in the first quarter of 2020. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak on the Company's financial condition in future reporting periods may also be material as this will depend on future developments, including but not limited to the timing of theaters reopening, if and when delayed films are released, consumer behaviour and any potential construction or installation delays involving our exhibitor partners which are highly uncertain and cannot be accurately forecast. However, assuming the resumption of business in the near future, we believe that a portion of these revenues may be recovered later in 2020 when we anticipate the films are scheduled to ultimately be released, although there can be no guarantees of the timing or extent of such recovery. See "Risk Factors — The Company's results of operations are expected to be adversely impacted by the recent coronavirus outbreak in China" in Item 1A of this 2019 Form 10-K and note 29 to the accompanying audited consolidated financial statements in Item 8 of this 2019 Form 10-K.

Reconciliation of non-GAAP financial measures

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:

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

	Years Ended December 31,			
	2019		2018	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS
Reported net income	**$ 58,571**	**$ 0.95**	$ 33,595	$ 0.53
Adjustments:				
Stock-based compensation	**22,830**	**0.37**	22,211	0.35
Exit costs, restructuring charges and associated impairments	**850**	**0.01**	9,542	0.15
Legal arbitration award	**—**	**—**	11,737	0.19
Executive transition costs	**—**	**—**	2,994	0.05
Change in fair value of equity investment	**517**	**0.01**	—	—
Impact of enactment of U.S Tax Cut and Jobs Act	**—**	**—**	—	—
Tax impact on items listed above	**(5,614)**	**(0.09)**	(9,873)	(0.16)
Adjusted net income	**77,154**	**1.25**	70,206	1.11
Net income attributable to non-controlling interests[1]	**(11,705)**	**(0.19)**	(10,751)	(0.17)
Stock-based compensation (net of tax of $0.1 million and $0.1 million, respectively)[1]	**(480)**	**(0.01)**	(394)	(0.01)
Exit costs, restructuring charges and associated impairments (net of tax of $nil and $0.4 million, respectively)[1]	**—**	**—**	(1,262)	(0.02)
Change in fair value of equity investment	**(184)**	**—**	—	—
Adjusted net income attributable to common shareholders	**$ 64,785**	**$ 1.05**	$ 57,799	$ 0.91
Weighted average diluted shares outstanding		**61,489**		63,207

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

Revenues and Gross Margin

The Company's revenues for the year ended December 31, 2019 increased 5.7% to $395.7 million from $374.4 million in 2018, primarily due to an increase in revenue from the Company's network and theater business segments, partially offset by a decrease in the new business and other segments. The gross margin across all segments in 2019 was $214.2 million, or 54.1% of total revenue, compared to $207.9 million, or 55.5% of total revenue in 2018.

Change in fair value of equity investment

In the first quarter of 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, entered into a cornerstone investment agreement with Maoyan Entertainment ("**Maoyan**"), a market-leading mobile ticketing platform providing innovative internet-empowered entertainment services in China, and purchased equity securities for $15.2 million. These equity securities are traded on the Hong Kong Stock Exchange, and the Company is required to adjust the fair value of the securities each period to reflect the current market value. This adjustment will fluctuate based on the closing market price at the end of each period. In 2019, a loss of $0.5 million was recognized in the consolidated statements of operations. IMAX China also seeks to develop strategic collaborations with Maoyan and enable the Company to leverage Maoyan's technical advantages to, among other things, more effectively market future content to consumers.

Income Taxes

The Company's Chinese subsidiary has taken a deduction for certain stock-based compensation issued by the Chinese subsidiary's parent company, IMAX China and has set up related deferred tax assets of $1.4 million (December 31, 2018 — $1.2 million). 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.

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, 2019, the net income attributable to non-controlling interests of the Company's subsidiaries was $11.7 million (2018 — $10.8 million).

LIQUIDITY AND CAPITAL RESOURCES

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("**IMAX Shanghai**"), the Company's majority-owned subsidiary in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million USD) to fund ongoing working capital requirements. On July 24, 2019, this facility was renewed. The total amounts drawn and available under the working capital loan at December 31, 2019 and 2018 were nil and 200.0 million Renminbi, respectively ($nil and approximately $30.0 million U.S. Dollars, respectively).

Cash and Cash Equivalents

As at December 31, 2019, the Company's principal sources of liquidity included cash and cash equivalents of $109.5 million, the Credit Facility, anticipated collection from trade accounts receivable of $99.5 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 $29.9 million and payments expected in the next 12 months on existing backlog deals. As at December 31, 2019, the Company had drawn $20.0 million on the Credit Facility (remaining availability of $280.0 million). Cash held outside of North America as at December 31, 2019 was $89.9 million (December 31, 2018 — $121.9 million), of which $67.6 million was held in the People's Republic of China ("**PRC**") (December 31, 2018 — $54.7 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 $21.9 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 81 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 471.6 million Renminbi ($67.6 million U.S dollars) in cash and cash equivalents as at December 31, 2019 (December 31, 2018 — 375.7 million Renminbi or $54.7 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 except share amounts)

	As at December 31, 2019	2018
Assets		
Cash and cash equivalents	**$ 109,484**	$ 141,590
Accounts receivable, net of allowance for doubtful accounts of $5,138 (December 31, 2018 — $3,174)	**99,513**	93,309
Financing receivables, net of allowance for uncollectible amounts (notes 5 and 22(c))	**128,038**	127,432
Variable consideration receivable from contracts (note 6)	**40,040**	35,985
Inventories (note 7)	**42,989**	44,560
Prepaid expenses	**10,237**	10,294
Film assets (note 8)	**17,921**	16,367
Property, plant and equipment (note 9)	**306,849**	280,658
Investment in equity securities (note 22(e))	**15,685**	1,022
Other Assets (notes 10 and 22(e))	**25,034**	17,997
Deferred income taxes (note 11)	**23,905**	31,264
Other intangible assets (note 12)	**30,347**	34,095
Goodwill	**39,027**	39,027
Total assets	**$ 889,069**	$ 873,600
Liabilities		
Bank indebtedness (note 13)	**$ 18,229**	$ 37,753
Accounts payable	**20,414**	32,057
Accrued and other liabilities (notes 8, 14, 15, 16, 22(d), 23 and 26)	**112,779**	97,724
Deferred revenue	**94,552**	106,709
Total liabilities	**245,974**	274,243
Commitments and contingencies (notes 14 and 15)		
Non-controlling interests (note 24(b))	**5,908**	6,439
Shareholders' equity		
Capital stock (note 16) common shares — no par value. Authorized — unlimited number 61,362,872 issued and 61,175,852 outstanding (December 31, 2018 — 61,478,168 issued and 61,433,589 outstanding)	**423,386**	422,455
Less: Treasury stock, 187,020 shares at cost (December 31, 2018 — 44,579)	**(4,038)**	(916)
Other equity	**171,789**	179,595
Accumulated deficit	**(40,253)**	(85,385)
Accumulated other comprehensive loss	**(3,190)**	(3,588)
Total shareholders' equity attributable to common shareholders	**547,694**	512,161
Non-controlling interests (note 24(a))	**89,493**	80,757
Total shareholders' equity	**637,187**	592,918
Total liabilities and shareholders' equity	**$ 889,069**	$ 873,600

Subsequent event (note 29)

(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, **2019**	2018	2017
Revenues			
Equipment and product sales (notes 17(b) and 20)	**$ 118,245**	$ 106,591	$ 103,294
Services (note 20)	**188,547**	181,740	195,594
Rentals (notes 17(b) and 20)	**77,961**	74,472	72,281
Finance income	**10,911**	11,598	9,598
	395,664	374,401	380,767
Costs and expenses applicable to revenues (note 2(n))			
Equipment and product sales	**63,627**	54,853	48,172
Services (note 17(b))	**88,175**	84,236	120,629
Rentals	**29,690**	27,383	26,720
	181,492	166,472	195,521
Gross margin	**214,172**	207,929	185,246
Selling, general and administrative expenses (note 16(c))	**123,456**	117,477	109,882
Research and development	**5,203**	13,728	20,855
Asset impairments (note 22(e))	**—**	—	1,225
Amortization of intangibles	**4,955**	4,145	3,019
Receivable provisions, net of recoveries (note 18)	**2,430**	3,130	2,647
Legal arbitration award (note 15)	**—**	11,737	—
Executive transition costs (note 25)	**—**	2,994	—
Exit costs, restructuring charges and associated impairments (note 26)	**850**	9,542	16,174
Income from operations	**77,278**	45,176	31,444
Change in fair value of equity securities (note 22(e))	**(517)**	—	—
Retirement benefits non-service expense (note 23)	**(737)**	(499)	(518)
Interest income	**2,105**	1,844	1,027
Interest expense	**(2,793)**	(2,916)	(1,942)
Income before income taxes and income (loss) from equity-accounted investments, net of tax	**75,336**	43,605	30,011
Provision for income taxes (note 11)	**(16,768)**	(9,518)	(16,790)
Income (loss) from equity-accounted investments, net of tax	**3**	(492)	(703)
Net income	**58,571**	33,595	12,518
Less: net income attributable to non-controlling interests (note 24(a))	**(11,705)**	(10,751)	(10,174)
Net income attributable to common shareholders	**$ 46,866**	$ 22,844	$ 2,344
Net income per share attributable to common shareholders — basic and diluted: (note 16(d))			
Net income per share — basic and diluted	**$ 0.76**	$ 0.36	$ 0.04

(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, **2019**	2018	2017
Net income	**$ 58,571**	$ 33,595	$ 12,518
Unrealized defined benefit plan actuarial gain (note 23(a))	**157**	1,448	1,004
Unrealized postretirement benefit plans actuarial (loss) gain (note 23(c) and 23(d))	**(153)**	85	125
Prior service cost arising during the period (note 23(a))	**(456)**	—	—
Unrealized net gain (loss) from cash flow hedging instruments (note 22(d))	**552**	(2,219)	2,545
Realization of cash flow hedging net loss (gain) upon settlement (note 22(d))	**1,183**	(408)	(824)
Foreign currency translation adjustments (note 2)	**(729)**	(3,170)	3,618
Other comprehensive income (loss), before tax	**554**	(4,264)	6,468
Income tax (expense) recovery related to other comprehensive (loss) income (note 11(h))	**(378)**	286	(746)
Other comprehensive income (loss), net of tax	**176**	(3,978)	5,722
Comprehensive income	**58,747**	29,617	18,240
Less: Comprehensive income attributable to non-controlling interests	**(11,483)**	(9,735)	(11,322)
Comprehensive income attributable to common shareholders	**$ 47,264**	$ 19,882	$ 6,918

(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,		
	2019	2018	2017
Cash provided by (used in):			
Operating Activities			
Net income	**$ 58,571**	$ 33,595	$ 12,518
Adjustments to reconcile net income to cash from operations:			
Depreciation and amortization (notes 19(c) and 21(a))	**63,487**	57,437	66,807
Write-downs, net of recoveries (notes 19(d) and 21(a))	**6,806**	11,770	29,568
Deferred income taxes	**6,762**	(6,923)	(4,017)
Stock and other non-cash compensation	**23,570**	23,723	24,075
Unrealized foreign currency exchange loss (gain)	**32**	631	(502)
Change in fair value of equity securities (note 22(e))	**517**	—	—
Loss from equity-accounted investments	**730**	95	306
(Gain) loss on non-cash contribution to equity-accounted investees	**(733)**	397	397
Investment in film assets	**(23,437)**	(23,200)	(34,645)
Changes in other non-cash operating assets and liabilities (note 19(a))	**(45,929)**	12,447	(9,141)
Net cash provided by operating activities	**90,376**	109,972	85,366
Investing Activities			
Purchase of property, plant and equipment	**(7,421)**	(13,368)	(24,143)
Investment in joint revenue sharing equipment	**(40,489)**	(34,810)	(42,634)
Acquisition of other intangible assets	**(2,931)**	(8,696)	(5,214)
Investment in equity securities (note 22(e))	**(15,153)**	—	(1,606)
Net cash used in investing activities	**(65,994)**	(56,874)	(73,597)
Financing Activities			
Increase in bank indebtedness (note 13)	**35,000**	65,000	—
Repayment of bank indebtedness (note 13)	**(55,000)**	(50,667)	(2,000)
Treasury stock repurchased for future settlement of restricted share units (note 16)	**(4,038)**	(916)	(5,133)
Settlement of restricted share units and options (note 16)	**(9,795)**	(5,249)	(20,331)
Repurchase of common shares, IMAX China (note 16)	**(19,162)**	(6,084)	—
Taxes withheld and paid on employee stock awards vested	**(590)**	(1,437)	(600)
Common shares issued — stock options exercised	**2,404**	1,017	16,668
Repurchase of common shares	**(2,659)**	(71,479)	(46,140)
Issuance of subsidiary shares to non-controlling interests (net of return on capital)	**1,106**	7,796	—
Dividends paid to non-controlling interests	**(4,384)**	(6,934)	—
Credit facility amendment fees paid	**—**	(1,909)	—
Net cash used in financing activities	**(57,118)**	(70,862)	(57,536)
Effects of exchange rate changes on cash	**630**	629	(267)
Decrease in cash and cash equivalents during year	**(32,106)**	(17,135)	(46,034)
Cash and cash equivalents, beginning of year	**141,590**	158,725	204,759
Cash and cash equivalents, end of year	**$ 109,484**	$ 141,590	$ 158,725

(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 except share amounts)

	Years Ended December 31, **2019**	2018	2017
Adjustments to capital stock:			
Balance, beginning of year	**$ 421,539**	$ 440,664	$ 437,274
Change in shares held in treasury	**(3,122)**	4,216	(3,194)
Employee stock options exercised	**1,752**	218	14,652
Fair value of stock options exercised at the grant date	**104**	70	3,542
Average carrying value of repurchased and retired common shares	**(925)**	(23,629)	(11,884)
Issuance of common shares for vested restricted share units	**—**	—	274
Balance, end of year	**419,348**	421,539	440,664
Adjustments to other equity:			
Balance, beginning of year	**179,595**	175,300	177,304
Paid-in-capital for employee stock options granted	**8,910**	5,907	5,496
Paid-in-capital for restricted share units granted	**13,985**	16,325	17,157
Paid-in-capital for restricted share units vested	**(10,525)**	(12,582)	(14,756)
Cash received from the issuance of common shares in excess of par value	**651**	799	2,017
Fair value of stock options exercised at the grant date	**(104)**	(70)	(3,542)
Common shares repurchased, IMAX China	**(19,162)**	(6,084)	—
Paid-in-capital for non-employee stock options granted and vested	**—**	—	17
Stock options exercised from treasury shares purchased on open market	**(1,561)**	—	(8,393)
Balance, end of year	**171,789**	179,595	175,300
Adjustments to accumulated deficit:			
Balance, beginning of year	**(85,385)**	(87,592)	(47,366)
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers	**—**	27,213	—
Retrospective adoption of ASC Topic 740, Intra-entity transfers	**—**	—	(8,314)
Net income attributable to common shareholders	**46,866**	22,844	2,344
Common shares repurchased and retired	**(1,734)**	(47,850)	(34,256)
Balance, end of year	**(40,253)**	(85,385)	(87,592)
Adjustments to accumulated other comprehensive loss:			
Balance, beginning of year	**(3,588)**	(626)	(5,200)
Other comprehensive income (loss), net of tax	**398**	(2,962)	4,574
Balance, end of year	**(3,190)**	(3,588)	(626)
Adjustments to non-controlling interests:			
Balance, beginning of year	**80,757**	74,511	59,562
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers	**—**	735	—
Net income attributable to non-controlling interests	**13,343**	13,461	13,801
Other comprehensive (loss) income, net of tax	**(223)**	(1,016)	1,148
Dividends paid to non-controlling shareholders	**(4,384)**	(6,934)	—
Balance, end of year	**89,493**	80,757	74,511
Total Shareholders' Equity	**$ 637,187**	$ 592,918	$ 602,257
Common shares issued and outstanding:			
Balance, beginning of year	**61,433,589**	64,695,550	66,159,902
Employee stock options exercised	**19,088**	12,750	405,229
Restricted share units vested (net of shares withheld for tax)	**—**	—	7,127
Restricted share units and stock option exercises settled from treasury shares purchased on open market	**44,579**	206,651	66,093
Repurchase of common shares	**(134,384)**	(3,436,783)	(1,736,150)
Shares held in treasury	**(187,020)**	(44,579)	(206,651)
Balance, end of year	**61,175,852**	61,433,589	64,695,550

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

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

11. Income Taxes

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

	Years Ended December 31, 2019	2018	2017
Canada	**$ 884**	$ (14,749)	$ (17,261)
United States	**(234)**	(6,079)	(11,895)
China	**51,809**	50,446	50,410
Ireland	**17,630**	8,071	3,632
Other	**5,247**	5,916	5,125
	$ 75,336	$ 43,605	$ 30,011

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

	Years Ended December 31, 2019	2018	2017
Current:			
Canada	**$ 2,369**	$ (4,893)	$ (6,898)
United States	**595**	1,300	267
China	**(11,789)**	(11,259)	(12,724)
Ireland	**(762)**	(1,095)	(735)
Other	**(419)**	(494)	(717)
	(10,006)	(16,441)	(20,807)
Deferred:[(1)]			
Canada	**(3,913)**	5,993	8,748
United States	**(949)**	2,386	(7,109)
China	**(18)**	(6)	1,405
Ireland	**(1,923)**	(1,423)	1,085
Other	**41**	(27)	(112)
	(6,762)	6,923	4,017
Provision for income taxes	**$ (16,768)**	$ (9,518)	$ (16,790)

(1) For the year ended December 31, 2019, the Company has not adjusted the valuation allowance from the prior year (2018 — $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 $0.4 million (2018 — $0.3 million).

(g) Uncertain tax positions

Cash held outside of North America as at December 31, 2019 was $89.9 million (December 31, 2018 — $121.9 million), of which $67.6 million was held in the People's Republic of China ("PRC") (December 31, 2018 — $54.7 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 $21.9 million.

13. Credit Facility and Other Financing Arrangements

Credit Facility

On June 28, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as agent, and a syndicate of lenders party thereto. The Credit Agreement expands the Company's revolving borrowing capacity from $200.0 million to $300.0 million, and also contains an uncommitted accordion feature allowing the Company to further expand its borrowing capacity to $440.0 million or greater, depending on the mix of revolving and term loans comprising the incremental facility. The facility (the "Credit Facility") matures on June 28, 2023.

Loans under the Credit Facility will bear interest, at the Company's option, at (i) LIBOR plus a margin ranging from 1.00% to 1.75% per annum; or (ii) the U.S. base rate plus a margin ranging from 0.25% to 1.00% per annum, in each case depending on the Company's Total Leverage Ratio (as defined in the Credit Agreement).

The Credit Agreement provides that the Company is required to maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) as of the last day of any fiscal quarter (as defined in the Credit Agreement) of no greater than 3.25:1.00. In addition, the Credit Agreement contains customary affirmative and negative covenants for a transaction of this type, including covenants that limit indebtedness, liens, capital expenditures, asset sales, investments and restricted payments, in each case subject to negotiated exceptions and baskets. The Credit Agreement also contains representations, warranties and event of default provisions customary for a transaction of this type.

The Company's obligations under the Credit Agreement are guaranteed by certain of the Company's subsidiaries (the "Guarantors"), and are secured by first-priority security interests in substantially all the assets of the Company and the Guarantors.

The Company was in compliance with all of its requirements at December 31, 2019.

Total amounts drawn and available under the Credit Facility at December 31, 2019 were $20.0 million and $280.0 million, respectively (December 31, 2018 — $40.0 million and $260.0 million, respectively). The effective interest rate for the year ended December 31, 2019 was 3.43% (2018 — 3.41%).

As at December 31, 2019 and 2018, the Company did not have any letters of credit and advance payment guarantees outstanding under the Credit Facility.

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("IMAX Shanghai"), one of the Company's majority-owned subsidiaries in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million U.S. Dollars) to fund ongoing working capital requirements. On July 24, 2019, this facility was renewed. The total amounts drawn and available under the working capital loan at December 31, 2019 and 2018 were nil and 200.0 million Renminbi, respectively ($nil and approximately $30.0 million U.S. Dollars, respectively).

16. 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 was 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.

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,		
	2019	2018	2017
Expense			
China Options	**$ 320**	$ 217	$ 1,034
China RSUs	**1,664**	1,229	1,124
CSSBPs	**—**	—	353
CSSBPs liability	**$ —**	$ —	$ —

Issuer Purchases of Equity Securities

In 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 repurchase program expired on June 6, 2019. In 2019, 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 June 6, 2019 (35,605,560 shares). The share purchase program expires on the date of the 2020 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 2019, IMAX China repurchased 8,051,500 common shares at an average price of HKD $18.63 per share (U.S. $2.38).

24. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

The Company indirectly owns approximately 69.74% of IMAX China, whose shares trade on the Hong Kong Stock Exchange. IMAX China remains a consolidated subsidiary of the Company. The balance of non-controlling interest in IMAX China as at December 31, 2019 is $89.5 million. The net income attributable to non-controlling interest in IMAX China for the year ended December 31, 2019 is $13.3 million.

29. Subsequent event

Subsequent to December 31, 2019, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday, and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. The repercussions of this health crisis in China will have a material adverse impact on the revenues generated by IMAX theatre systems in the first quarter of 2020."

(2) EARNINGS RELEASE EXTRACTS

"IMAX is among the world's premiere entertainment experiences, and our record 2019 financial results reflect sharp focus, strong execution, and disciplined cost management as we continue to grow our global footprint, diversify our content portfolio, and enhance our pioneering end-to-end technology," said IMAX CEO Richard L. Gelfond.

"Across 2019, our business demonstrated significant strength by setting a number of new records for the Company including annual revenue as well as global, international, and local language box office — underscoring the increasing geographic diversification of our business."

"In a world of nearly infinite entertainment choices, audiences continue to choose IMAX. Immersive entertainment experiences continue to connect fans and drive culture around the globe. We are committed to building on strong demand for The IMAX Experience® to strengthen our unique position in the entertainment ecosystem and deliver value for our shareholders."

"In terms of the health crisis in China, where movie theaters nationwide remain closed, we are continuing to monitor the situation closely and needless to say the safety of our team and audiences is our top priority," said Mr. Gelfond. "We look forward to circumstances improving and IMAX continuing to satisfy China's strong demand for premium quality content and entertainment experiences."

Fourth Quarter and Full-Year Segment Results

Network Business

- Network business revenues increased 6.9% to $196.9 million in 2019, compared to $184.2 million in the prior-year period. The strong overall increase in network business revenues was primarily driven by a $76.4 million, or 7.4%, increase in IMAX global box office to $1.1 billion.

- Total gross margin for the network business was 64.4% in the most recent quarter, compared to 66.0% in the prior-year period. The year-over-year decrease in total gross margin was primarily driven by increased depreciation and amortization expense and contractual marketing expense.

Theater Business

- Theater business segment revenues increased 7.2% to $180.5 million in 2019, compared with $168.4 million in the prior-year period.

- Total gross margin for the theater business was 48.1% compared to 50.9% in the prior-year period. The year-over-year decline in total gross margin was primarily driven by the geographic and system mix of installations in the first quarter of 2018. The theater business gross margin increased steadily throughout 2019, landing at 51.2% for the entire segment in the fourth quarter of 2019, and 53.0% specifically for sales and sales type lease theaters.

Share Count and Capital Return

- The weighted average diluted shares outstanding at the end of the fourth quarter of 2019 declined 2.7% to 61.5 million, compared to 63.2 million in fourth quarter 2018, due primarily to share repurchase activity. During 2019 a total of 134 thousand shares were repurchased at an average price of $19.76 for a total value of approximately $2.7 million. A total of $125.9 million remains available under the Company's outstanding share repurchase authorization, which expires in June 2020.

- During 2019, IMAX China repurchased a total of 8.05 million shares at an average price of $2.38 for a total value of approximately $19.2 million.

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, adjusted EBITDA per Credit Facility, free cash flow and return on invested capital 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.

The Company is required to maintain a minimum level of "EBITDA", as such term is defined in the Company's credit agreement (and which is referred to herein as "Adjusted EBITDA per Credit Facility" or "Adjusted EBITDA per Credit Facility excluding *Marvel's Inhumans*", as the credit agreement includes additional adjustments beyond interest, taxes, depreciation and amortization). EBITDA and Adjusted EBITDA per Credit Facility (each as defined below) should not be construed as substitutes for net income or as better measures of liquidity as determined in accordance with U.S. GAAP. The Company believes that EBITDA and Adjusted EBITDA per Credit Facility excluding *Marvel's Inhumans* are relevant and useful information widely used by analysts, investors and other interested parties in the Company's industry.

Adjusted Net Income and Adjusted Diluted Per Share Calculations
(In thousands of U.S. dollars)
(Unaudited)

	12 Months Ended December 31, 2019		12 Months Ended December 31, 2018	
	Net Income	**Diluted EPS**	Net Income	Diluted EPS
Reported net income	**$ 58,571**	**$ 0.95**	$ 33,595	$ 0.53
Adjustments:				
Stock-based compensation	**22,830**	**0.37**	22,211	0.35
Exit costs, restructuring charges and associated impairments	**850**	**0.01**	9,542	0.15
Legal arbitration award	**—**	**—**	11,737	0.19
Executive transition costs	**—**	**—**	2,994	0.05
Change in fair value of equity investment	**517**	**0.01**	—	—
Impact of enactment of U.S. Tax Cut and Jobs Act	**—**	**—**	—	—
Tax impact on items listed above	**(5,614)**	**(0.09)**	(9,873)	(0.16)
Adjusted net income	**77,154**	**1.25**	70,206	1.11
Net income attributable to non-controlling interests[1]	**(11,705)**	**(0.19)**	(10,751)	(0.17)
Stock-based compensation (net of tax of $0.1 million and $0.1 million, respectively)[1]	**(480)**	**(0.01)**	(394)	(0.01)
Exit costs, restructuring charges and associated impairments (net of tax of $nil and $0.4 million, respectively)[1]	**—**	**—**	(1,262)	(0.02)
Change in fair value of equity investment	**(184)**	**—**	—	—
Adjusted net income attributable to common shareholders	**$ 64,785**	**$ 1.05**	$ 57,799	$ 0.91
Weighted average diluted shares outstanding		**61,489**		63,207

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

DEFINITIONS USED IN THIS ANNOUNCEMENT

"Annual Report"	the annual report of IMAX Corporation dated 19 February 2020 New York time
"Board" or "Board of Directors"	the board of directors of the Company
"CG Code"	the Corporate Governance Code set out in Appendix 14 of the Listing Rules
"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
"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 19 February 2020 New York time
"Earnings Release"	the earnings announced by IMAX Corporation on 19 February 2020 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
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC" or "China"	the People's Republic of China, but for the purposes of this document only, except where the context requires, references in this announcement to PRC or China exclude Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus of the Company dated 24 September 2015
"RMB"	Renminbi, the lawful currency of the PRC

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

GLOSSARY

This glossary contains explanations of certain terms used in this 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 film"	a motion picture approved for theatrical release in the PRC which was produced by one or more PRC producer(s) or jointly produced by one or more PRC producer(s) and one or more foreign producer(s) and meets the requirements of the relevant laws and regulations of the PRC
"commercial theatre"	a theatre owned or operated by an exhibitor, excluding theatres associated with museums, zoos, aquaria and other destination entertainment sites which do not play commercial films
"distributor"	an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres
"exhibitor"	exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules
"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 digital xenon projection system"	the xenon-based digital projection system, developed, and rolled out in 2008, by IMAX Corporation
"IMAX DMR"	the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX film
"IMAX film"	a film converted from a conventional film using IMAX DMR technology
"IMAX laser-based digital projection system"	the 4K laser-based digital projection system, developed, and rolled out at the end of 2014, by IMAX Corporation
"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
Joint Company Secretary

Hong Kong, 20 February 2020

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
Megan Colligan

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

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