

Critical Accounting **ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(ii) Income taxes and deferred tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As at 31 March 2016, the Group did not recognise deferred tax assets of HK\$59,587,000 (2015: HK\$49,459,000) in respect of tax losses and capital allowances amounting to HK\$243,540,000 (2015: HK\$198,644,000) and HK\$26,806,000 (2015: HK\$24,344,000) respectively that could be carried forward against future taxable income as the realisation of the related tax benefits through future taxable profit is not probable. Estimating the amount of deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for income tax expense, forecasting future year's taxable income and assessing our ability to utilise tax benefits through future earnings. In cases where the actual future profits generated are different from original estimates than expected, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such circumstances are changed.

(iii) Impairment of investments in subsidiaries and non-financial assets

The Group conducts impairment reviews of investments in subsidiaries and non-financial assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the Group to estimate the value in use which base on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. During the year, after reviewing the business environment as well as the Group's strategies and past performance of its cash-generating units, management concluded that there were impairment for plant and equipment totally HK\$17,249,000 (2015: HK\$34,319,000). Management believe that any reasonably possible changes in the assumptions used in the impairment reviews would not affect management's view on impairment at current year end.

(iii) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(iv) Fair value estimation of share options

The Group estimates the fair value of share options using a binomial lattice methodology which involves the use of estimates. Details of the valuation model are disclosed in Note 23.

(v) Useful lives, residual values and depreciation of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charge where useful lives or residual values are materially different from those previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.