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28 May 2026

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Sir/Madam,

Re: Comment on Exposure Draft of Proposed Amendments to Accounting Guideline 5 (Revised) *Merger Accounting for Common Control Combinations*

Deloitte Touche Tohmatsu is pleased to respond to the Hong Kong Institute of Certified Public Accountants' (the "HKICPA") invitation to comment on Exposure Draft of Proposed Amendments to Accounting Guideline 5 (Revised) *Merger Accounting for Common Control Combinations* ("AG 5"), hereinafter referred to as "the Proposed Amendments". Subject to some detailed comments laid out below in response to the Questions for respondents, we support the Proposed Amendments and the rationale for them as laid out in the Explanatory Memorandum ("EM") and believe they will help address the Outstanding Issues that the HKICPA has identified regarding the application of AG 5 and thereby be an appropriate end result of the Post Implementation Review of AG 5. We lay out our specific comments below:

1. Do you agree with the amendments proposed in this Exposure Draft? If not, please specify which parts of the proposals you disagree with, why, and what you propose instead.

We broadly support the Proposed Amendments outlined in the Exposure Draft, as they aim to enhance clarity, transparency, and practicality in the application of the AG 5 by entities and deal with existing long standing practice issues while aligning with extant requirement of other HKFRS Accounting Standards. However, from the perspective of further helping constituents better understand how to apply some of amendments proposed, we would suggest the HKICPA consider the following substantive enhancement to some of the details of the Proposed Amendments:

Factors to consider regarding use of the practical expedient: We support the Proposed Amendments allowing entities to elect not to restate comparative information for periods prior to the common control combination with this being formulated as a policy choice in line with the requirements of HKAS 8.13 to be applied consistently for all similar common control transactions and entities needing to follow the disclosure requirement under AG 5.17. This addresses long-standing concerns about the cost, complexity, and limited usefulness of retrospective restatement, particularly for post-IPO or private entity transactions. The requirement to disclose the election and apply the policy consistently per HKAS 8 provides an appropriate balance between flexibility and comparability.

However, we believe that it would be helpful to reproduce in the text of AG 5 (perhaps as part of the proposed paragraph AG 5.11A) the facts and circumstances noted in the bullet points in the paragraph 39 and the first bullet point of paragraph 40 of the EM as factors that an entity should consider in making its accounting policy choice under the proposed paragraph AG 5.11A. We believe that this would help entities determine an appropriate accounting policy choice in their specific circumstances and also help in making the judgment as to what may be similar and dissimilar common control transactions in this context.

In addition we also have a number of minor editorial comments including with respect to the Examples in the Appendix to AG 5 which we have detailed in the Appendix to this letter.

2. Do you agree with the effective date for the proposed amendments to AG 5? If not, please specify why, and what you propose instead.

Regarding the proposed effective date of 1 January 2028 mentioned in the paragraph 35 of the EM issued by the HKICPA we believe that this timeline provides sufficient lead time for entities to understand the amendments to AG 5, particularly the practical expedient introduced and disclosure requirement newly added. We believe the proposed effective date would not create any practical difficulties given: (i) the proposed amendments are to be applied prospectively and apply only to common control combinations with a date of combination on or after the effective date of the proposed amendments and (ii) entities could early adopt the Proposed Amendments voluntarily. We therefore support the proposed effective date.

We urge the HKICPA to proceed with its intention of finalizing the Proposed Amendments to AG 5 in the second half of 2026.

In case of any questions, please contact Mateusz Lasik at +852 2238 7688 or Bella Bao at +86 2028311223.

Yours sincerely,

Deloitte Touche Tohmatsu

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APPENDIX

We suggest that it would be useful to include as footnote to the proposed paragraph AG 5.9A (which references paragraph 2.4 of the Conceptual Framework) the following text which features as footnote 6 to paragraph 10 of the Explanatory Memorandum:

CF 2.4 states that "If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable."

With respect to the changes proposed to the Examples in the Appendix to AG 5 we have the following editorial comments:

- In the newly proposed Example 2A on page 18 of the proposed revised text of AG 5 for clarity we would suggest adding in the first table on that page " – " to the row of "Attributable to the former non-controlling interest in Entity Y" in the column "Entity C".

- In the newly proposed Example 2A on page 18 of the proposed revised text of AG 5 for clarity we would suggest adding in the second table on that page footnote symbol "+" to the column description "Consolidated (before including Entity C)" along with adding the following text beneath the table "+ *Extracted from the consolidated statement of profit or loss of Entity A for the year ended 31 December 20X1 in Example 1*". This would help to ensure consistency with the first column in the first table on that page.

- In the newly proposed Example 2B on page 20 of the proposed revised text of AG 5 we would suggest adding in the first table on that page " (C10) " to the row of "Profit or loss" in the column "Adj"

  In the newly proposed Example 2B on page 20 of the proposed revised text of AG 5 we would suggest that the final sentence in the penultimate paragraph which currently states "This differs from Example 2A, where Entity A recognises accumulated profits of HK$65,000 as at 1 Jan 20X2 and Entity C's full year profit of HK$30,000" should in fact state "This differs from Example 2A, where Entity A recognises accumulated profits of HK$65,000 as at 1 January 20X2 and Entity C's full year profit of HK$30,000".