

Accounting Standard for Business Enterprises No. 3 - Investment Real Estates

Chapter I General Provisions

Article 1 In order to regulate the recognition and measurement of the investment real estates and disclosure of the relevant information,, these Standards are formulated in the light of the Accounting Standards for Enterprises – Basic Standards.

Article 2 The term "investment real estates" refers to the real estates held for generating rent and/or capital appreciation. The investment real estate shall be measured and sold respectively.

Article 3 These standards shall apply to the following investment real estates:

- (1) The right to use any land which has already been rented;
- (2) The right to use any land which is held and prepared for transfer after appreciation; and
- (3) The right to use any building which has already been rented.

Article 4 The following items are not included within the scope of investment real estates:

- (1)The real estates for self-use, that is to say, the real estates held for manufacturing commodities, rendering labor services or business management; and
- (2) The real estates regarded as inventories.

Article 5 Other relevant accounting standards shall apply to the items as follows:

- (1)The Accounting Standards for Enterprises – Construction Contracts shall apply to the real estates built by enterprises for others; and
- (2) The Accounting Standards for Enterprises No. 21 – Leasing shall apply to the income from rents of investment real estates and the leaseback of investment real estates.

Chapter II Recognition and Initial Measurement

Article 6 No investment real estate shall be recognized unless it meets the following requirements simultaneously:

- (1) The economic benefits pertinent to this investment real estate are likely to flow into the enterprise; and
- (2) The cost of the investment real estate can be reliably measured.

Article 7 The initial measurement of the investment real estate shall be made at its cost.

(1) The cost of an investment real estate by acquisition consists of the acquisition price, relevant taxes, and other expenses directly relegated to the asset.

(2) The cost of a self-built investment real estate composes of the necessary expenses for building the asset to the hoped condition for use.

(3) The cost of an investment real estate obtained by other means shall be recognized in accordance with the relevant accounting standards.

Article 8 For the follow-up expenses pertinent to an investment real estate, if they meet the recognition conditions as mentioned in Article 6 of these Standards, they shall be included in the cost of the investment real estate; otherwise, if they fail to meet the recognition conditions as mentioned in Article 6 of these Standards, they shall be included in the current profits and losses when they are incurred.

Chapter III Follow-up Measurement

Article 9 An enterprise shall make a follow-up measurement to the investment real estate through the cost pattern on the date of the balance sheet except that the investment real estate complies with the provisions of Article 10 of these Measures.

The Accounting Standards for Enterprises No. 4 – Fixed Assets shall apply to the follow-up measurement of a building measured through the cost pattern. The Accounting Standards for Enterprises No. 4 – Intangible Assets shall apply to the follow-up measurement of the right to the use of the land measured through the cost pattern.

Article 10 Where any well-established evidence shows that the fair value of an investment real estate can be obtained in a continuous and reliable way, a follow-up measurement may be made to the investment real estate through the fair value pattern. To make a measurement through the fair value pattern, the following conditions shall be met simultaneously:

(1) There is an active trading market of real estate in the location of the investment real estate; and

(2) The enterprise is able to obtain the market prices of the identical or similar real estates and other relevant information from the trading market of real estate, so as to be able to estimate the fair value of the investment real estate.

Article 11 For the investment real estate measured through the fair value pattern, where there is no accrual depreciation or amortization made for it, its book value shall be adjusted on the basis of its fair value on the date of the balance sheet, and the difference between the fair value and its original book value shall be included in the current profits and losses.

Article 12 Once an enterprise's pattern for the measurement of the investment real estate is decided, it shall not be changed randomly. If the enterprise replaces the cost pattern by the fair value pattern, it shall be considered

that it has changed its accounting policy, which shall be disposed in accordance with the Accounting Standards No. 28 – Changes in Accounting Policies and Estimates And Correction of Errors.

For an investment real estate that has been measured through the fair value pattern, the pattern of its measurement shall not be changed from the fair value pattern to the cost method.

Chapter IV Conversion

Article 13 Where an enterprise which has well-established evidence to indicate that the purpose of the real estate has changed, it shall convert the investment real estate to other assets or vice versa, when it meets any of the following conditions:

- (1) The investment real estate begins to be used for its own;
- (2) The investment real estate for inventory is changed for rent;
- (3) The lands with the right to self-use are changed for generating rents or capital appreciation;
- (4) The buildings with the right to self-use are changed for rent.

Article 14 Under the cost pattern, the book value of the real estate prior to the conversion shall be entry value after conversion.

Article 15 Where an investment real estate measured through the fair value pattern is converted into self-use real estate, the fair value on the very date of conversion shall be the book value of the self-use real estate. The difference between the fair value and the original book value shall be included in the current profits and losses.

Article 16 When any self-use real estate or real estate for inventory is converted to investment real estate to be measured through the fair value pattern, the investment real estate shall value under the fair value on the very date of the conversion. If the fair value on the very date of the conversion is less than the original book value, the difference shall be included in the current profits and losses. If the fair value on the very date of the conversion is more than the original book value, the difference shall be included in the owner's rights and interests.

Chapter V Disposal

Article 17 If an investment real estate is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the recognition of it as an investment real estate shall be terminated.

Article 18 When an enterprise sells, transfers or discards any investment real estate, or when any investment real estate of an enterprise is damaged or destroyed, the enterprise shall deduct the book value of the investment real estate as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

Chapter VI Disclosure

Article 19 An enterprise shall, in the notes, disclose the information concerning the investment real estates as follows:

- (1) The type, amount and measurement pattern of the investment real estates;
- (2) The information on the depreciation or amortization as well as the provision for the impairment of the investment real estates measured through the cost pattern;
- (3) As to the investment real estate measured through the fair value pattern, its basis and pattern for the recognition of the fair value, and the relevant effects of changes of the fair value on the profits and losses;
- (4) The information about the conversion of the real estates-and the relevant reasons, as well as the effects on the profits and losses or the owner's rights and interests; and
- (5) The investment real estates disposed currently and the relevant effects on the profits and losses.