

**Accounting Standards for Enterprises No. 3 – Investment Real Estates****(No. 3 [2006] of the Ministry of Finance February 15, 2006)****Chapter I General Provisions**

Article 1 For the purpose of regulating the recognition and measurement of investment real estates as well as the disclosure of the relevant information, these Standards are formulated in accordance with 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 able to be measured and sold separately.

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 do not fall within the scope of investment real estates:

- (1) The real estates for self-use, namely the real estates held for manufacturing commodities, rendering labor services or business management; and
- (2) The real estates treated as inventories.

Article 5 The following items shall be governed by other relevant accounting standards:

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

**Chapter II Recognition and Initial Measurement**

Article 6 No investment real estate may be recognized unless it satisfies the following conditions simultaneously:

- (1) The economic benefits relating 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 investment real estate shall be initially measured at its cost.

- (1) The cost of an investment real estate by acquisition includes the acquisition price, relevant taxes, and other expenses which are directly attributable to the asset.
- (2) The cost of a self-built investment real estate is formed by the necessary expenses for building

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the asset to the planned condition for use.

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

Article 8 For the follow-up expenses relating 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; if they do not meet the recognition conditions as mentioned in Article 6 of these Standards, they shall be included in the profits and losses of the current period when they are incurred.

### Chapter III Follow-up Measurement

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

The follow-up measurement of a building measured through the cost method shall be governed by the Accounting Standards for Enterprises No. 4 – Fixed Assets.

The follow-up measurement of the right to use any land measured through the cost method shall be governed by the Accounting Standards for Enterprises No. 4 – Intangible Assets.

Article 10 Where any well-established evidence shows that the fair value of an investment real estate can be continuously and reliably obtained, a follow-up measurement may be made to the investment real estate through the fair value method. To make a measurement through the fair value method, the following conditions shall be satisfied simultaneously:

- (1)There is an active real estate market in the place where the investment real estate is located; and
- (2)The enterprise is able to obtain from the real estate market the market prices of the identical or similar real estates and other relevant information, and is able to make a reasonable estimate about the fair value of the investment real estate.

Article 11 If the investment real estate is measured through the fair value method, no depreciation or amortization may be made for it. Its carrying amount shall be adjusted on the basis of its fair value on the balance sheet date. The difference between the fair value and its original carrying amount shall be included in the profits and losses of the current period.

Article 12 Once an enterprise's method for the measurement of the investment real estate is decided, it shall not be changed randomly. If the enterprise replaces the cost method by the fair value method, it shall be deemed that the enterprise has changed its accounting policy, which shall make a treatment according to the Accounting Standards No. 28 – Changes in Accounting Policies and Estimates, and Correction of Errors.

For an investment real estate which has been measured through the fair value method, the

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enterprise shall not replace the fair value method with the cost method.

#### Chapter IV Conversion

Article 13 Where an enterprise has reliable evidence to show that the purpose of a real estate is changed, if it satisfies any of the following requirements, it shall convert the investment real estate to other assets or vice versa:

- (1) It begins to use the investment real estate by itself;
- (2) It rents out any real estate inventory;
- (3) It stops using the self-use right to any land for the purpose of generating rents or capital appreciation; or
- (4) It stops using any self-use building and changes to rent it out.

Article 14 Under the cost method, the carrying amount 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 method is converted into self-use real estate, the fair value on the very day of conversion shall be the carrying amount of the self-use real estate. The difference between the fair value and the original carrying amount shall be included in profits and losses of the current period.

Article 16 When any self-use real estate or real estate inventory is converted to investment real estate to be measured through the fair value method, the price of the investment real estate shall be calculated under the fair value on the very conversion day. If the fair value on the very conversion day is less than the original carrying amount, the difference shall be included in the profits and losses of the current period. If the fair value on the very conversion day is more than the original carrying amount, 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 carrying amount of the investment real estate as well as the relevant taxes from the disposal income, and record the result in the profits and losses of the current period.

#### Chapter VI Disclosure

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Article 19 An enterprise shall, in the annotations, disclose the following information relating to the investment real estates:

- (1)The type, amount and measurement method of the investment real estates;
- (2)If it adopts the cost method, the information about the depreciation or amortization as well as the provision for the impairment of the investment real estates;
- (3)If it adopts the fair value method, the basis and method for the determination of the fair value, and the effects of changes of the fair value on the profits and losses;
- (4)The information about the conversion of the real estates, reasons, as well as the effects on the profits and losses and owner's rights and interests; and
- (5)The investment real estates which are disposed of in the current period and their effects on the profits and losses.



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