Financial Economics Research; Vol.3, No.5; 2026
E-ISSN: 3006-3663 P-ISSN: 3006-3655
DOI: https://doi.org/10.70267/fer.v3n5.4657
Published by: Zeus Press

A Study on Earnings Management Behavior During the Follow-on Offering Period of Publicly Offered REITs

Menglin Wu*

Research Institute of Economics and Management, Southwestern University of Finance and Economics, Chengdu, 611130, China

**Corresponding author: Menglin Wu.*

Abstract

As a special form of equity refinancing, follow-on offerings of domestic publicly offered REITs have an institutional background distinct from that of ordinary listed companies, thereby giving rise to unique earnings management risks. Based on agency theory, managerial overoptimism theory and earnings management theory, this study compares differences in institutional conditions and practices of earnings management between U.S. and Asian REITs, and identifies two earnings management pathways during the follow-on offering stage of domestic publicly offered REITs: real-activity earnings management through adjustments to the distributable amount of existing assets, and broad-sense earnings expectation management characterized by optimistic bias in valuation forecasts for assets to be acquired. This study conducts an exploratory case study based on publicly disclosed documents and finds that to date Chinese regulators have not imposed any penalties for illegal earnings management occurring in the follow-on offering stage. Nevertheless, some projects exhibit indicative signs, such as abnormal cash flow fluctuations during the window period and overly optimistic valuation assumptions. To address hidden risks of window dressing during the follow-on offering process, countermeasures can be refined from three perspectives: strengthening constraints on valuation forecasts, optimizing REIT fund manager incentive mechanisms, and enhancing investors' risk identification capabilities.

Keywords

publicly offered REITs, follow-on offering, real earnings management, earnings expectation management, distributable amount

1. Introduction

As a core instrument for real-estate investing and financing, REITs serve important functions including revitalizing stock infrastructure assets, broadening financing channels for real economy entities, and enriching the supply of equity products in capital market. Since the launch of normalized issuance and follow-on offering mechanism for domestic publicly offered REITs, follow-on offerings have been a major route that serves to expand fund scale, enable both original beneficial owners to realize asset exits and allow investors to earn returns from multi-asset portfolios. From the perspective of the capital markets, follow-on offerings of publicly offered REITs constitute a special form of seasoned equity offering (SEO). They have similar financing incentives and agency conflict logic with SEOs conducted by listed companies. However, they exhibit marked differences in institutional design, including mandatory dividend rules, the accounting system for distributable

© 2026 The Author(s). Authors retain copyright in their articles.

amounts, income-approach asset valuation, and the external management model. These institutional disparities give rise to earnings management practices distinct from those observed in conventional listed companies.

Existing overseas literature has documented that U.S. and Southeast Asian REITs exhibit earnings manipulation behavior during seasoned equity offering windows: U.S. REITs are dominated by FFO and real-activity earnings management, whereas Asian REITs in Malaysia, Singapore and Hong Kong, China show more prevalent accrual-based earnings management due to the external management models and the absence of unified FFO disclosure rules. Nevertheless, there remains a relative paucity of domestic literature in this area, particularly empirical studies. To fill the aforementioned research gap, grounded in the unique regulatory regime of domestic publicly offered REITs and drawing on agency theory, managerial overoptimism theory and real earnings management theory, this paper systematically analyzes four core motives to engage in earnings management within the follow-on offering context, compares differences in institutional prerequisites for earnings management across Chinese, U.S., and Asian REIT markets, and outlines two categories of earnings management paths for domestic publicly offered REITs: real-activity earnings management that adjusts the distributable amount of existing assets and optimistic bias in valuation forecasts for assets to be acquired (broad-sense earnings expectation management). Drawing upon follow-on offering inquiry letters and operating data from AVIC Jingneng International Energy REIT and Bosera China Merchants Shekou Industrial Park REIT, this paper provides supporting case evidence. It concludes with policy recommendations along three dimensions: tightening constraints on valuation forecasts, optimizing incentives mechanism for REIT fund managers, and strengthening investors' capacity for risk identification. This paper extends the indigenous analytical framework for earnings management research under REIT seasoned equity offerings scenarios. It also provides empirical evidence for regulators to improve follow-on offering valuation reviews and for investors to identify window dressing during the follow-on offering process.

2. Analysis of Motivations for Earnings Management in Publicly-Offered REITs' Follow-on-Offering: An Agency-Theory Perspective

Follow-on offerings of publicly offered REITs represent a specific form of seasoned equity offering (SEO) within the framework of infrastructure asset securitization. They share similar capital market financing logic with SEO activities of listed companies. However, due to the fund structure, dividend regime and follow-on offering transaction mechanism, multiple agency conflicts arise between fund managers, existing investors and original beneficial owners, which in turn give rise to motives for earnings management during the follow-on offering window. From an agency theory perspective [1], earnings manipulation conducted by fund managers under the follow-on offering setting is essentially the outcome of games among stakeholders with conflicting interest claims. This issue can be analyzed in detail from four dimensions: regulatory and holder voting constraints, follow-on offering pricing mechanism, fund managers' remuneration incentives, and interest demands of original beneficial owners.

First, satisfying the dual admission requirements of unitholders' meeting voting and regulatory registration helps ease investor disciplinary pressure within the agency relationship. From an agency theory perspective, fund managers, as agents, face constraints from both existing unitholders and the regulators. On the regulatory front, the review of follow-on offerings of publicly offered REITs centers on protecting the interests of existing investors, and admission criteria for newly acquired assets are largely consistent with those for initial offerings. Existing holders mainly evaluate proposals based on per unit dividend yields and asset appreciation, and are highly sensitive to whether the follow-on offering can realize per-unit value enhancement. To reduce the risk of the follow-on offering proposal being rejected by the unitholders' meeting or denied in regulatory review, the manager has incentives to adjust current dividend related indicators and adopt optimistic valuation projections for target assets to be acquired. This improves the overall attractiveness of the follow-on offering proposal, facilitate approval by the holders' meeting vote, and enables completion of the registration and approval process at the exchange and the China Securities Regulatory Commission (CSRC).

Second, driven by the interest orientation embedded within the follow-on offering pricing mechanism, the agent has incentives to support the secondary market price in order to optimize follow-on offering issuance outcomes. Follow-on offerings of domestic publicly offered REITs are subject to explicit pricing constraints: the offering price must be no less than 90% of the average fund unit price over the 20 trading days preceding the announcement. Secondary market price directly determines the follow-on offering pricing range. In the

© 2026 The Author(s). Authors retain copyright in their articles.

principal-agent relationship, fund managers, as agents, have incentives to sustain the fund's secondary market performance. They may adopt short-term earnings management to inflate the current distributable amount, stabilize dividend expectations, boost secondary market investor sentiment, support a steady upward trend in fund unit prices, and thereby raise the follow-on offering issue price to improve outcomes of this seasoned equity offering. Under this mechanism, secondary market performance acts as an important mediator linking managerial operational behaviours and the economic consequences of the follow-on offering.

Third, the scale-based compensation incentive regime for REIT fund managers creates an inherent incentive for expansion. At present, the primary source of income for fund managers of publicly offered REITs is management fee revenue, and fee income is directly tied to fund AUM, generating a strong scale-first incentive. Follow-on offerings represent a core pathway for managers to rapidly expand fund asset bases and enlarge their revenue pool. To maximize their own benefits, managers have incentives to engage in earnings management to shape market expectations of sustained stable operation of underlying assets alongside improving dividend capacity, thereby paving the way for successive follow-on offerings and scaled business expansion.

Lastly, the alignment of interests between fund managers and original beneficial owners supports their pursuit of high-value asset divestiture. As the primary sellers of assets for follow-on offering, original beneficial owners aim to revitalize infrastructure assets, recycle capital and optimize asset structure of assets via the REIT platform, which constitutes their core objective for participating in the follow-on offering cooperation. Original beneficial owners have strong incentives to sell assets at high valuations, preferring to complete asset injection during periods with stable market valuations and optimistic operational outlooks for underlying assets. By conducting earnings management to smooth operating and dividend volatility and sustain REIT market valuations, fund manager can create favourable conditions for original beneficial owners to divest assets at high prices and close the investment-operation-exit industrial loop. The two parties thereby form an alignment of interests, which weakens fund managers' fiduciary duties to existing unitholders to a certain extent and induces window dressing during the follow-on offering process.

3. Literature Review and Institutional Comparison of Earnings Management in Overseas REITs

3.1 Research on Earnings Management in the SEO Context of U.S. REITs

Empirical literature on earnings management in overseas REITs focus primarily on the U.S. market. Edelstein et al. (2009) find evidence of REITs with cash constraint in U.S. mitigate the effects of dividend pay-out regulations by engaging in real earnings management (REM) activities either by reducing revenue or increasing expenses which would reduce the taxable income [2,3]. Zhu et al. (2010a) find that REITs which more frequently issue seasoned equity offering (SEO) are more aggressive in manipulating funds from operations (FFO) compared to earnings [4]. Deng and Ong (2014) use 508 SEOs issued by U.S. equity REITs between 2000 and 2011 as the research sample. They adopt abnormal operating cash flow (ABCFO), abnormal operating expenses (ABEXP), and abnormal property disposals (ABDISP) as proxies for real earnings management and employ quarterly data to characterize the average level of real earnings management in the SEO year and surrounding years. The results show that the magnitude of real earnings management increases significantly before SEO and declines afterward [5].

Taken together, existing U.S. literature shows that U.S. REITs rely less heavily on accrual-based earnings management and generally adopt real-activity earnings management. The primary institutional and market drivers consist of asset structure, market monitoring mechanisms, legal costs of accounting manipulation, and management models.

First, the concentrated asset structure restricts the scope of accrual adjustments. Under U.S. REIT regulations, more than 75% of total assets must consist of be real estate assets, cash and cash equivalents, and government securities [6]. REIT operations focus exclusively on rental and property operations and lack adjustable accounting items like inventory, R&D and goodwill. Rental income and original property cost are supported by objective external documents including lease agreements and third-party appraisal reports. Accordingly, there is very limited room for accrual manipulation through accounting policies and accounting estimates. Second, dual disclosure of FFO and net income creates a market monitoring mechanism. The

© 2026 The Author(s). Authors retain copyright in their articles.

National Association of Real Estate Investment Trusts (NAREIT) establishes uniform standards governing FFO calculation and disclosure. Institutional investors and analysts track both net income and FFO as performance metrics. If managers inflate book profits by under-provisioning for impairments and receivables without a corresponding improvement in FFO, the market can quickly identify that performance improvement arise solely from accounting adjustment. This will trigger secondary market valuation discounts. Accordingly, accrual manipulation is easily detected and cannot lift SEO valuations. Third, the Sarbanes-Oxley Act (SOX) substantially raises the legal costs of accounting manipulation. The 2002 SOX reinforces management's accountability for financial statements: CEOs and CFOs must personally attest to the veracity of financial reports, while external auditors are required to perform substantive scrutiny of accrual accounts such as depreciation, impairment, and receivables. Abnormal discretionary accruals may trigger SEC inquiries, class actions lawsuits, substantial fines and even criminal prosecution. In contrast, adjusting capital spending and conducting opportunistic asset disposals constitute routine operating decisions. These activities raise higher evidentiary hurdles for regulators and carry lower penalty risks. Lastly, the internal management model ties the management's long-term interests to the REIT. Mainstream U.S. REITs adopt the internal management model, where management team members are employed by the listed entity. Their compensation, equity stakes and professional reputation are closely bound to the REIT's long-term share price. Accrual-based earnings management leaves permanent accounting footprints, and subsequent accrual reversals will inevitably lead to sharp performance deterioration. Such long-term losses exceed short-term SEO gains, deterring managers' incentives for accrual manipulation.

3.2 Research on Earnings Management in Asian REITs

For Asian markets, Thai and Lai (2019) select all REITs listed in Malaysia, Singapore and Hong Kong, China over the period of 2007-2015 to construct panel data, and conduct an empirical study using discretionary accruals (DA) as a proxy for earnings management. The result show that the absolute values of discretionary accruals of the sample REITs are all non-zero, indicating that earnings management is pervasive among Asian REITs. Independent samples t-tests further suggest that, despite the special regulatory arrangements for REITs, earnings management is significantly prevalent among REITs in all three markets [7,8].

In stark contrast to the U.S. market, the literature indicates that Asian REITs primarily use accrual-based earnings management as their main manipulation approach. The core institutional differences are reflected in the following three aspects. To begin with, there is no uniform and standardized FFO disclosure system. Asian markets have not issued mandatory and uniform rules on FFO accounting and reporting, and the market relies solely on accounting net income to evaluate asset operating performance. Analysts lack cross-verification indicators, making it difficult to detect window dressing in accrual such as depreciation and receivables provisioning. Moreover, since FFO data are not covered by statutory audit, data availability is limited, which constrains empirical research on real-activity earnings management. Second, the external management model weakens long-term incentive constraints. Asian REITs generally adopt an external asset management structure, in which managers are independent of the original beneficial owners of underlying assets and charge a fixed management fee solely on fund AUM. Their core goal is to expand management scale in the short term and obtain management mandates for new projects. Since their compensation is not tied to long-term share prices or the risk of accrual reversal in subsequent years, managers are more willing to engage in short term accrual -based earnings management to boost performance and complete SEOs, without bearing the cost of long-term operating deterioration. Third, real earnings management (REM) imposes stronger constraints on external managers. REM involves Adjusting major property repairs, lease agreements, and asset disposals, all of which require coordination with underlying property developers and tenants. In contrast, accrual adjustments—such as depreciation lives, bad debt provisions, and fair value estimates—merely require accountants and can be completed through internal processes without coordinating external parties, thus lowering the operational threshold.

4. Path Analysis of Earnings Management During the Follow-on Offering Period of Domestic Publicly Offered REITs

The earnings management of domestic publicly offered REITs is constrained by specific institutional rules, including the mandatory dividend requirement that over 90% of distributable cash flow must be paid out and the follow-on offering pricing mechanism anchored on appraised value [9,10]. It exhibits characteristics

© 2026 The Author(s). Authors retain copyright in their articles.

distinct from those of conventional listed companies. Drawing on overseas literature and domestic regulatory inquiry practices, this paper categorizes earnings management of domestic publicly offered REITs during follow-on offerings into two primary paths: first, earnings management targeting the distributable amount of existing assets; second, optimistic bias in the forecast of assets to be acquired in follow-on offerings, namely the broad-sense "expectation earnings management."

The first path focuses on adjusting the distributable cash flow of existing projects, thereby affecting the distribution yield that investors monitor. Its incentives are twofold: (1) adjusting the operating performance of the existing assets to enhance the relative attractiveness of the follow-on offering and help the follow-on offering proposal obtain approval at the fund unitholders' meeting; (2) improving fundamental expectations in secondary market shortly before the pricing benchmark date, lifting the fund's secondary market trading price and raising the minimum offering price of the follow-on offering units. The second path falls under one of the broad-sense earnings expectation management. In the income approach valuation of assets to be acquired, the manager adopts optimistic forecasting assumptions to inflate the appraised value of underlying assets. This allows the asset seller to obtain higher asset transfer consideration and enables a larger fundraising amount. These two types of behavior complement each other and jointly serve the financing objective of follow-on offerings.

4.1 Earnings Management Path Targeting the Distributable Amount of Existing Assets

China publicly offered REITs operate under a mandatory cash distribution rule requiring 90% of the distributable amount to be paid out. The distribution metric centers on the distributable amount derived from adjustments to project companies' cash flows, rather than accounting net income as the direct distribution base. Since REIT distributions are not directly tied to net income, this weakens their incentives to engage in accrual-based earnings manage.

Article 16 of the *Operational Guidelines for Publicly Offered Infrastructure Securities Investment Funds* (For trial Implementation) stipulates that the distributable amount is calculated on the basis of consolidated net income. After conversion to the EBITDA basis, further adjustments are made for multiple items, including working capital, capital spending, borrowing cash flows and provisions for expenditure [11]. Many of these adjustment items leave room for managerial discretion and subjective judgment, from which roughly four types of real earnings management strategies tactics can be derived:

First, real earnings management via working capital (timing of receivables and payables settlement). The calculation framework for the distributable amount of domestic publicly offered REITs includes adjustment items for changes in working capital. The settlement timing of rental receivable and payable operations and maintenance payments directly affect the current-period distributable amount. Managers can boost current operating cash by intensively collecting tenant rents at the year end and accelerating the recovery of receivables. Meanwhile, they may deliberately delay O&M service payments to suppliers to reduce current operating cash outflows. Such intervention in settlement timing does not change the revenue and expense recognition basis under accounting standards, leave book net income and EBITDA unaffected, and fully conforms to the core characteristics of real-activities earnings management.

Second, selective adjustment of capital expenditures (CAPEX). As a primary deduction from the distributable amount, CAPEX covers "fixed asset renewal, major repairs and renovation". However, the boundary between routine maintenance expenditures and value-enhancing asset renovation expenditures remains ambiguous in practice, leaving room for managerial discretion. Furthermore, REITs enjoy certain flexibility in practice when accounting for the current year amount of capital expenditures incurred. Ping An Securities (2022) compared the "current-year capital expenditure" figure used in the distributable amount calculation across the first batch of nine REITs against the item "cash paid for acquisition of fixed assets, intangible assets and other long-term assets" in their statements of cash flows. For CICC GLP REIT and three other REITs, the adjusted current-year capital expenditure was lower than the actual amount expenditure recorded in the cash flow statement, which may create room to inflate distributable cash flow [12].

Third, subjective judgment over provisions for future expenditures. Under the accounting rules for calculating the distributable amounts of publicly offered REITs, managers may reasonably set aside provisions for future major capital expenditures, asset maintenance costs and unforeseen operating costs. Such provisions

© 2026 The Author(s). Authors retain copyright in their articles.

directly reduce the current-period distributable amount. The magnitude of these provisions relies heavily on managerial professional judgment and offers substantial room for subjective adjustment, constituting a REIT specific channel for earnings adjustment.

Fourth, financing-side earnings management through receipt and payment of loan principal. The calculation framework for the distributable amount of domestic publicly offered REIT treats "proceeds from borrowings" and "cash repayment of loan principal" as adjustment items, leaving room for managers to engage in real earnings management through financing activities. At year end, manager can generate debt cash flows by taking on new borrowing (including with-recourse factoring of government subsidy receivables) to lift the current-period distributable amount to meet the mandatory distribution requirement. Alternatively, they may voluntarily prepay loan principal to reduce the current-period distributable amount and retain cash to build a dividend reserve. Furthermore, managers can manipulate the accounting year of loan disbursements and principal repayments to smooth the distributable amount across periods.

4.2 Optimistic Bias in Forecast for Assets to be Acquired in Follow-on Offering (Broad-Sense "Earnings Expectation Management")

The income approach serves as the core pricing basis for assets in the follow-on offerings of domestic publicly offered REITs. Key parameters include the rental growth rate, long-term occupancy rate, rental collection rate, vacancy and rent-free period, discount rate, and long-term capital expenditure, which rely on subjective judgments made by manager and appraisal institutions. Under the dual effect of agency conflict theory and managerial overoptimism theory [13], the cash flow forecasts of follow-on offering targets are prone to systematic optimistic bias, which constitutes broad-sense earnings management oriented toward external investors and regulators.

From the agency conflict, incentive orientations across multiple stakeholders jointly give rise to optimistic assumptions. As asset sellers, original beneficial owners pursue high valuation consideration. Fund managers seek to boost return expectations for new assets to facilitate the follow-on offering and expand assets under management. Appraisal institutions are appointed and paid by fund manager, which creates incentives to cater to the demand of their clients. Driven by overlapping interests of multiple parties, the base-case valuation scenario tends to adopt optimistic measurement parameters, inflating the present value and pool-entry cost of assets to be acquired. Meanwhile, downside risks like lease expiry and non-renewal, new regional supply and tenant attrition are deliberately underestimated. Pessimistic scenario only as supplementary disclosure and are not incorporated into the core valuation model. From the perspective of industry regulatory review practice, optimistic assumptions are prevalent in follow-on offering application documents across multiple asset categories, including industrial parks, warehousing and logistics, new energy and consumer infrastructure. Such assumptions deviate markedly from historical operating data of regional properties and the actual operating performance of existing REITs, thereby triggering penetrating inquiries from stock exchanges. Typical optimistic assumptions include: an excessively high long-term perpetual rental growth rate, long-term occupancy rates assumed to remain nearly fully leased, and a long-term rental collection rate set at 100%. Some projects extrapolate stable short-term related-party leases into perpetual cash flows, overlooking rent downside pressure from lease renewal negotiation. Capital expenditure forecasts also exhibit optimistic bias relative to historical actual expenditure.

Optimistic forecast bias leads to lasting adverse economic consequences. After the completion of follow-on offering, the actual occupancy rate, rental level and distributable cash flow of the underlying assets underperform valuation projections, and the realized distribution yield fails to meet the level estimated in the follow-on offering application. The follow-on units of some REITs trade at a discount for an extended period after listing. Both existing and new investors bear the investment losses due to such forecast bias.

5. Case Analysis of Earnings Management Behavior During the Follow-on Offering Period of Domestic Publicly Offered REITs

This section presents an exploratory case analysis based on publicly available information. Analytical materials are sourced from regular fund reports, follow-on offering prospectuses, and inquiry and response documents issued by the Shanghai and Shenzhen Stock Exchanges. As of August 2026, domestic regulators

© 2026 The Author(s). Authors retain copyright in their articles.

have not issued any administrative penalty decisions confirming earnings management violations during the follow-on offering of publicly offered REITs. Therefore, the indicators identified from the cases merely constitute indirect signs at the level of time-series metrics and regulatory inquiries. These signs cannot be directly equated with proven earnings manipulation and require comprehensive evaluation with alternative explanations. The paper selects AVIC Jingneng International Energy REIT as a typical sample for the path of adjusting the distributable amount of existing assets. Bosera China Merchants Shekou Industrial Park REIT and the AVIC Jingneng International Energy REIT are adopted as samples of inquiry evidence for optimism bias (broad sense earnings expectation management). All selected projects have either filed follow-on offering applications or completed the follow-on offering, making them representative for this research.

5.1 Real Earnings Management Targeting the Distributable Amount of Existing Assets: The Case of AVIC Jingneng International Energy REIT

5.1.1 Timeline of Key Events

AVIC Jingneng International Energy REIT was established on March 20, 2023, with two photovoltaic power plants, Yulin and Jingtai, as its initial underlying assets. On March 15, 2024, the fund manager issued a follow-on offering announcement, planning to acquire two hydropower stations, Sujiahekou and Songshanhekou. The follow-on offering fundraising was completed in December 2025 (as shown in Table 1).

Table 1: Overview of Key Event Dates of the Fund's Follow-on Offering

Date	Key Matters
2024/3/15	The fund manager issued the *Announcement of AVIC Fund Management Co., Ltd. on the Decision to Launch a Follow-on Offering of and Acquire New Infrastructure Projects for AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund*, seeking approval for the follow-on offering and the acquisition of new infrastructure projects.
2025/7/28	The fund obtained the *No-objection Letter from the Shanghai Stock Exchange on Product Alteration, Listing of Follow-on Units of AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund, and Listing and Transfer of Asset-Backed Securities under AVIC-Jingneng Hydropower No. 1 Infrastructure Asset-Backed Special Plan (SSE REITs (Review) (2025) No. 11)*.
2025/8/1	The fund received the *Official Reply of the China Securities Regulatory Commission on Granting Registration Modification for AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund (CSRC Permit (2025) No. 1633)*.
2025/11/12–2025/12/5	Voting at the Fund Unitholders' Meeting
2025/12/24	The proceeds raised from this targeted follow-on offering were received.

Source: Targeted Follow-on Offering Issuance Report of AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund

5.1.2 Temporal Characteristics of Distributable Amount and Distribution Yields

The fund's quarterly distributable amount and distribution yields exhibited abnormal volatility in 2025, the pivotal year for its follow-on offering. The underlying cause was the timing of recourse-based factoring on the fund's national subsidy receivables. The principal from factoring financing was recorded under the line item "Proceeds Received from Borrowings", directly affecting the quarterly distributable amount for that year (see Table 2). From a time-series perspective, no national subsidy factoring transactions were carried out in Q1 2025, and the distributable amount declined markedly year-on-year. Within the critical window after regulatory approval and before follow-on offering pricing (Q3 2025), several national subsidy factoring transactions were completed within a concentrated period, driving a substantial rise in the distributable amount and quarterly distribution yield. In Q4 2025, after the completion of follow-on offering fundraising, these indicators fell again (see Table 3). The pulsed movements of financial indicators align temporally with the follow-on offering window, consistent with the observable characteristics of the event window for real earnings management.

© 2026 The Author(s). Authors retain copyright in their articles.

Table 2: Explanation of Circumstances in Which the Distributable Amount of AVIC Jingneng International Energy REIT Changed by More Than 10% Year on Year in Q1–Q3 2025

Quarter	Explanation of Over-10% Year-on-Year Changes in Distributable Amount: AVIC Jingneng International Energy REIT, Q1–Q3 2025
2025Q1	During the reporting period, the distributable amount stood at RMB 2,643,885.25, versus RMB 158,380,966.85 for the same period of the prior year, representing a year-on-year decline of 98.33%. The primary reason was that no national subsidy factoring arrangement was implemented in this reporting period, whereas the national subsidy factoring amount reached RMB 146,617,997.12 in the same period of the prior year. In addition, the year-on-year revenue decline of the underlying asset project companies also partially affected the fund's distributable amount.
2025Q2	During the reporting period, the fund's distributable amount stood at RMB 65,474,826.13, versus RMB 44,967,194.48 for the same period of the prior year, representing a year-on-year increase of 45.61%. The primary reasons were twofold. First, the fund carried out national subsidy factoring business with respect to national subsidy receivables generated by the infrastructure project companies in January–March 2024, with factoring financing amount to RMB 61,768,974.83, while no national subsidy factoring financing business was implemented in the same period of the prior year; Second, revenue of the underlying infrastructure project companies declined year on year.
2025Q3	During the reporting period, the fund's distributable amount stood at RMB 199,364,595.50, versus RMB 141,833,506.27 for the same period of the prior year, a year-on-year increase of 40.56%. The primary reason was that the fund carried out national subsidy receivables generated by the infrastructure project companies from April to December 2024, with factoring financing amount to RMB 194,099,262.31. In the same period of the prior year, national subsidy factoring business was implemented for national subsidy receivables generated by the infrastructure project companies from July to December 2023, with factoring financing amount of RMB 134,017,445.30, reflecting a year-on-year increase of RMB 60,081,817.01.

Source: Fund quarterly reports.

Table 3: Historical Per-Unit Distributable Amount and Cash Flow Distribution yield of AVIC Jingneng International Energy REIT

	2023	2024	2025Q1	2025Q2	2025Q3	2025Q4
Reporting-period per-unit distributable amount (RMB)	1.0939	1.1600	0.0100	0.2182	0.6645	0.0933
Cumulative per-unit distributable amount for the year (RMB)	1.0939	1.1600	0.0100	0.2271	0.8916	0.5384
Reporting-period cash flow distribution yield (%)[1]	11.28	10.99	0.07	1.80	5.86	0.92
Annualized cash flow distribution yield (%)[2]	14.39	10.99	0.29	3.78	10.52	5.33

[1] Reporting-period cash flow distribution yield = Distributable amount for the reporting period ÷ Market value at the end of the reporting period.
[2] Annualized cash flow distribution yield = Cumulative distributable amount for the current year as of the end of the reporting period ÷ Market value at the end of the reporting period ÷ Actual days from the beginning of the year to the end of the reporting period × Total days in the year.
Source: Fund quarterly reports; WIND.

5.1.3 Potential Motivations and Alternative Explanations

Compared with the forecast data for the underlying assets acquired in the follow-on offering, the manager's use of factoring adjustment appears to have had potential motives aligned with the objectives of the follow-on offering. Firstly, the two initial photovoltaic projects of AVIC Jingneng International Energy REIT demonstrated strong dividend distribution capability in 2023 and 2024, with annualized cash flow distribution yields of 14.39% and 10.99% respectively. However, according to the forecasts in the *Prospectus for the First Follow-on Offering and Acquisition of New Infrastructure Projects in 2024 of AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund*, the cash flow distribution yields corresponding to the projected distributable amounts of the newly acquired infrastructure projects for July-December 2025 and 2026 were merely 2.78% and 8.19%. Although the forecasted cash flow distribution yields of the original projects for the corresponding periods also declined relative to their initial levels, to 7.91% and 6.49% respectively, the manager may also have had an incentive to temporarily lower the cash distribution yield of the original projects in terms of actual distribution, thereby enhancing the relative attractiveness of the newly acquired projects and securing the smooth passage of the resolution at the Fund Unitholders meeting. Subsequently, in Q3 2025, the

© 2026 The Author(s). Authors retain copyright in their articles.

follow-on offering application successively obtained approval from the Shanghai Stock Exchange and CSRC, and the project gradually approached the pricing stage. The manager simultaneously scaled up national subsidy factoring to push up the quarterly distribution yield, stabilize the secondary market unit price, and raise the floor price of the follow-on offering.

Nevertheless, objective alternative explanations also exist for the volatility of this indicator. First, the pace of national subsidy factoring disbursement is constrained by the approval progress of the external financial institution and is not determined unilaterally by the manager. Second, the power generation of photovoltaic assets is subject to disturbances from natural climatic factors such as solar irradiance, and quarterly cash flows therefore inherently exhibit natural volatility (a secondary factor).

5.1.4 Case Insights

This case illustrates that where managerial discretion over the timing of certain compliant financing instruments, such instruments carry potential risks of being used to adjust the distributable amount within the follow-on offering window. Nevertheless, public financial time-series evidence alone cannot verify the manager's subjective manipulation intent.

5.2 Optimistic Bias at the Forecast Level of Follow-on Offering Assets (Broad-Sense "Earnings Expectation Management"): Multi-Case Evidence Based on Regulatory Inquiries

For follow-on offerings of domestic publicly offered REITs, newly acquired assets are generally valued using the income approach. Parameters including rental growth rate, occupancy rate, rental collection rate and capital expenditure rely on professional judgment by appraisers. Although no direct internal evidence confirms managers deliberate overvaluation, exchange inquiry letters for multiple projects show that certain valuation assumptions are deviate from the historical operational reality of the assets, constituting indirect regulatory evidence of broad-sense earnings expectation management. This paper analyzes the inquiry documents from the second follow-on offering of Bosera China Merchants Shekou Industrial Park REIT and the follow-on offering of AVIC Jingneng International Energy REIT.

5.2.1 Case Analysis

Case 1: Shenzhen Stock Exchange Inquiry on the Second Follow-on Offering of Bosera China Merchants Shekou Industrial Park REIT [14]

The key focus of the Shenzhen Stock Exchange review inquiry highlights inconsistencies between valuation assumption and historical operating performance: the unit rent of underlying assets had already trended downward, whereas the valuation model assumed long-term positive rental growth; asset occupancy rate gradually declined during the reporting period, yet the valuation projected a continuous rise in occupancy; the rent collection rate of Guangming Industrial Park fell year on year, but the valuation directly assumed a 100% rental collection rate. The regulator also required the respondent to justify the reasonableness of future capital expenditure forecasts and warned of the risk that understating major repair expenditures would inflate asset valuation. The above inquiry indicates that the base-case scenario adopted relatively optimistic parameters and failed to fully incorporate downward operational pressure stemming from rising regional industrial parks supply, creating a risk of overestimating asset values.

Case 2: Shanghai Stock Exchange Feedback Comments on the Follow-on Offering of AVIC Jingneng International Energy REIT [15]

The regulator focused on the optimistic bias embedded in long-term capital expenditure forecasts for the hydropower assets: the target's technological transformation and capital expenditures during historical reporting periods stood at RMB 2,378,900, RMB 54,300, RMB 70,400 and RMB 257.10 respectively. Nevertheless, net capital expenditure in the valuation forecast period was treated as a positive add-back item in the long run. The regulator requested justification for the adopted assumption based on historical actual expenditures and warned that underestimation of operation and maintenance expenditures would inflate asset valuations.

© 2026 The Author(s). Authors retain copyright in their articles.

5.2.2 Alternative Explanations

It should be note that an optimistic tilt in valuation parameters is not equivalent to the manager's subjective implementation of earnings management. Such parameter settings may also stem from reasonable projections by the manager and appraisal institutions regarding operational plans such as subsequent asset renovation and leasing performance improvement, representing professional judgment in valuation practice. They may also arise from the cognitive bias of managerial overoptimism. The divergence between assumptions and historical data reflected in inquiry letters alone is insufficient to prove opportunistic behavior involving deliberate overstatement of asset valuations.

5.2.3 Case Insights

key variables such as occupancy rate, rental collection rate and capital expenditure are prone to optimistic bias in income-approach valuation for REIT follow-on offerings. Such practices do not alter realized cash flows in the current period and fall under the broad-sense earnings expectation management defined in this paper. Current regulation mainly relies on regulatory inquiries and special reviews of cash flow discrepancies within two years after follow-on offering completion to implement ex-post oversight, however, yet it remains difficult to directly verify the manager's subjective manipulative intent.

6. Conclusions and Recommendations

6.1 Core Research Conclusions

As a special scenario of equity refinancing, follow-on offerings of publicly offered REIT are governed by the fund structure, mandatory distribution regime and follow-on offering transaction mechanism. Multiple agency conflicts exist between fund managers, the existing investors and original beneficial owners, giving rise to incentives for earnings management within the follow-on offering window. Drawing on agency theory, this paper analyzes the drivers of earnings management during the follow-on offerings of publicly offered REITs from four dimensions: regulatory and unitholder voting restrictions, the follow-on offering pricing mechanism, managerial compensation incentives, and the interests of original beneficial owners. The interplay of interests among different stakeholders shapes managers' behavioral choices. Interwoven institutional constraints and interest demands jointly provide the practical foundation for earnings management.

Institutional differences lead to divergence in earnings management practices between domestic and overseas REITs. Relevant literature indicates that US REITs, supported by standardized FFO disclosure, internal management structures and high penalty costs for accountancy fraud, are dominated by real earnings management with limited accrual manipulation. Asian REITs lack unified FFO rules, and external managers are driven by short-term incentives, making accrual-based earnings management more prevalent. Domestic publicly offered REITs take the distributable amount as the core distribution indicator, and working capital, capital expenditure and financing cash flows offer discretionary adjustment room.

Drawing on the institutional rules and market practices of domestic publicly offered REITs, this paper identifies two paths of earnings management in the follow-on offering context and further conducts an empirical analysis of these paths through case studies. The first path is real earnings management based on working capital, the classification of capital expenditure, reservation for future expenditures, and borrowing principal inflows and outflows, which directly adjusts the distributable amount of existing assets. The second path is optimistic bias in income-approach valuation parameter of the assets to be acquired, which falls under broad-sense earnings expectation management and raises the entry valuation of such assets by overestimating long-term cash flows. The two types of behavior work in tandem to serve the financing objectives of the follow-on offering.

Earnings management during the follow-on offering period will give rise to negative subsequent economic consequences. Current-period cash flow manipulation merely shifts earnings across periods, future principal repayments and lumpy maintenance expenditures will continue to compress distributions. Optimistic bias in assets forecasts leads to overpriced acquisitions, once the actual operating performance of underlying assets falls short of projections, the fund's long-term distribution yield keeps declining and secondary-market units trade at a discount, ultimately leaving existing and newly added investors to bear all the losses.

© 2026 The Author(s). Authors retain copyright in their articles.

6.2 Regulatory and Market Optimization Recommendations

Enhance the prudence of valuation forecasts and make multi-scenario stress testing mandatory. Stock exchanges should issue guidelines on valuation parameters for follow-on offerings, specifying value range of rent growth rate, occupancy rates, discount rate and capital expenditure, requiring comparable case disclosure, while prohibiting reliance on a single optimistic base-case scenario. It should also be mandatory to disclose the results of both neutral and pessimistic scenarios and to quantify the downside risk of distribution yields under optimistic assumptions.

Optimize the incentives and constraints mechanisms for managers and curb their pursuit of short-term asset scale expansion. Improve the management fee structure of publicly offered REITs by lowering the proportion of fixed management fees calculated solely on AUM and increasing performance-linked management fees tied to the long-term distribution yield and the secondary market discount rate. Extend the performance appraisal cycle of management team to 3-5 years and incorporate the long-term operating performance of follow-on offering assets into assessment indicators, thereby mitigating managers' incentives for short-term window dressing and blind follow-on expansion. Strengthen accountability for external managers' performance of duties: if deliberate optimistic forecasting or cash flow manipulation occurs at the follow-on offering stage, restrict their eligibility to file subsequent applications for new funds and follow-on offering project.

Enhance investors' capability to identify and rationally assess the risk of follow-on offering investments. When evaluating the viability of a follow-on offering, institutional and individual investors should not rely solely on the current-period per-unit distributable amount; instead, they need to conduct look-through analysis of how working capital, capital expenditure and borrowing principal flows affect distributions. In addition, they should also review all valuation, examining whether parameters such as rent, vacancy rate and capital expenditure significantly exceed those of comparable assets in the region, fully assessing the downside distribution risk if optimistic assumptions fail, and avoiding follow-on offering targets with high premiums and overly optimistic projections.

References

[1] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3 (4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

[2] Roychowdhury, S. (2006). Earnings management through real activities manipulation. Journal of Accounting and Economics, 42 (3), 335–370. https://doi.org/10.1016/j.jacceco.2006.01.002

[3] Edelstein, R. H., Liu, P., & Tsang, D. (2009). Real earnings management and dividend payout signals: A study for U.S. Real Estate Investment Trusts. National University of Singapore.

[4] Zhu, Y., Ong, S. E., & Yeo, W. Y. (2010). Do REITs manipulate their financial results around seasoned equity offerings? Evidence from US equity REITs. The Journal of Real Estate Finance and Economics, 40 (4), 412–445. https://doi.org/10.1007/s11146-009-9192-0

[5] Deng, X., & Ong, S. E. (2014, January 3–5). Real earnings management, liquidity and REITs SEO dynamics. AREUEA-ASSA Annual Meeting, Philadelphia, PA, 3-5 January 2014.

[6] United States Congress. (2024). Internal Revenue Code, 26 U.S.C. § 856(c)(4). U.S. Government Publishing Office.

[7] Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. The Accounting Review, 70(2), 193–225.

[8] Thai, S. B., & Lai, M. M. (2019). An examination of prevalence of earnings management in Asia REITs. International Journal of Business and Management, 14 (5), 75–83. https://doi.org/10.5539/ijbm.v14n5p75

[9] Shanghai Stock Exchange. (2025). Application guidelines for the rules of the Shanghai Stock Exchange on publicly offered real estate investment trusts (REITs) No. 3: Additional offerings and acquisition of new real estate (For trial Implementation) (SSE Issuance [2025] No.141). https://www.sse.com.cn/lawandrules/sselawsrules2025/reits/c/c_20251231_10803751.shtml

© 2026 The Author(s). Authors retain copyright in their articles.

[10] Shenzhen Stock Exchange. (2025). Business guidelines of the Shenzhen Stock Exchange for publicly offered real estate investment trust (REIT) business No. 3: Additional offerings and acquisition of new real estate (For trial Implementation) (SZSE Issuance [2025] No. 1522). https://investor.szse.cn/lawrules/rule/reits/t20251231_618232.html

[11] Asset Management Association of China. (2021). Operational guidelines for publicly offered infrastructure securities investment funds (For trial Implementation) (AMAC Document [2021] No. 20). https://www.amac.org.cn/fwdt/wyb/jgdjhcpbeian/zczqhcpba/xgzc/202408/P020240828583271452012.pdf

[12] Ping An Securities Research Institute. (2022, August 12). What are the possible adjustment items in publicly Offered REITs financial statements? [Research report]. https://finance.sina.com.cn/stock/stockzmt/2022-08-12/doc-imizirav7815826.shtml

[13] Heaton, J. B. (2002). Managerial optimism and corporate finance. Financial Management, 31 (2), 33–45. https://doi.org/10.2307/3666221

[14] Shenzhen Stock Exchange. (2026). Review inquiry letter on the application documents for the product change and additional offering listing of Bosera China Merchants Shekou Industrial Park Closed-End Infrastructure Securities Investment Fund and the listing of Bosera China Merchants Shekou Industrial Park Real Estate Phase 3 Asset-Backed Special Plan (Review Letter [Fund] No. [2026] 015). https://reportdocs.static.sse.org.cn/UpFiles/reitsinfodisc/REITS_678A7892873943C1A73337C3245DA2E0.pdf

[15] Shanghai Stock Exchange. (2024). Feedback comments on the acceptance and review of the application for the product change and additional offering listing of AVIC Jingneng Photovoltaic Closed-End Infrastructure Securities Investment Fund and the listing and transfer of Asset-Backed Securities under AVIC-Jingneng Hydropower No. 1 Infrastructure Asset-Backed Special Plan. https://static.sse.com.cn/bond/bridge2/disclosure/announcement/c/202504/043246_20250415_P4SD.pdf

Funding

This research received no external funding.

Conflicts of Interest

The authors declare no conflict of interest.

Acknowledgment

This paper is an output of the science project.

Copyrights

Copyright for this article is retained by the author (s), with first publication rights granted to the journal. This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (http://creativecommons.org/licenses/by/4.0/).

© 2026 The Author(s). Authors retain copyright in their articles.