



The Launch of China REITs



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01

**Introduction To
China REITs**

1.1 Basic Concepts and Market Capacity

What are REITs

What are 'Quasi-REITs'

What are C-REITs

What is the size of the 'C-REITs' market

REITs (real estate investment trusts) pool the capital of investors by offering income securities and have specialized investment institutions to carry out real estate investment, operation and management. The investment income will be allocated to investors at a relatively high proportion.

"Quasi-REITs" in China are privately traded and lay the foundation for the launching of C-REITs in China. **Since 2014, a total of 90 Quasi-REITs have been issued in China, with total amount of RMB171.5bn.** Quasi-REITs invest in real estate properties, including office buildings, logistics and warehouse, commercial complexes, rental housing, roads and hotels.

C-REITs are REITs with infrastructure as the underlying assets instead of commercial or residential real estate. C-REITs convert infrastructure projects with low liquidity into high liquidity shares. Featuring public issuance, medium risks, high liquidity and stable returns, C-REITs are a new investment instrument that is between stocks and bonds.

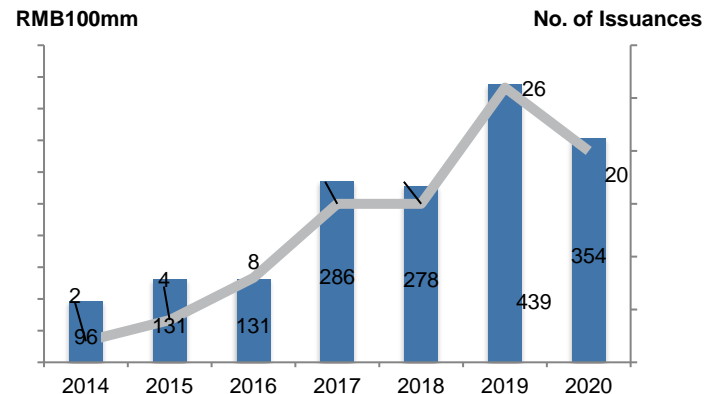
NDRC: C-REITs have promising future in China, and the market size is at least in **trillions of RMB**

Experts: It is estimated that the potential market size of C-REITs can be more than **RMB 5tn**

(calculated based on the existing infrastructure assets of >RMB130tn in China and a REITs-rate of 4% in mature markets)

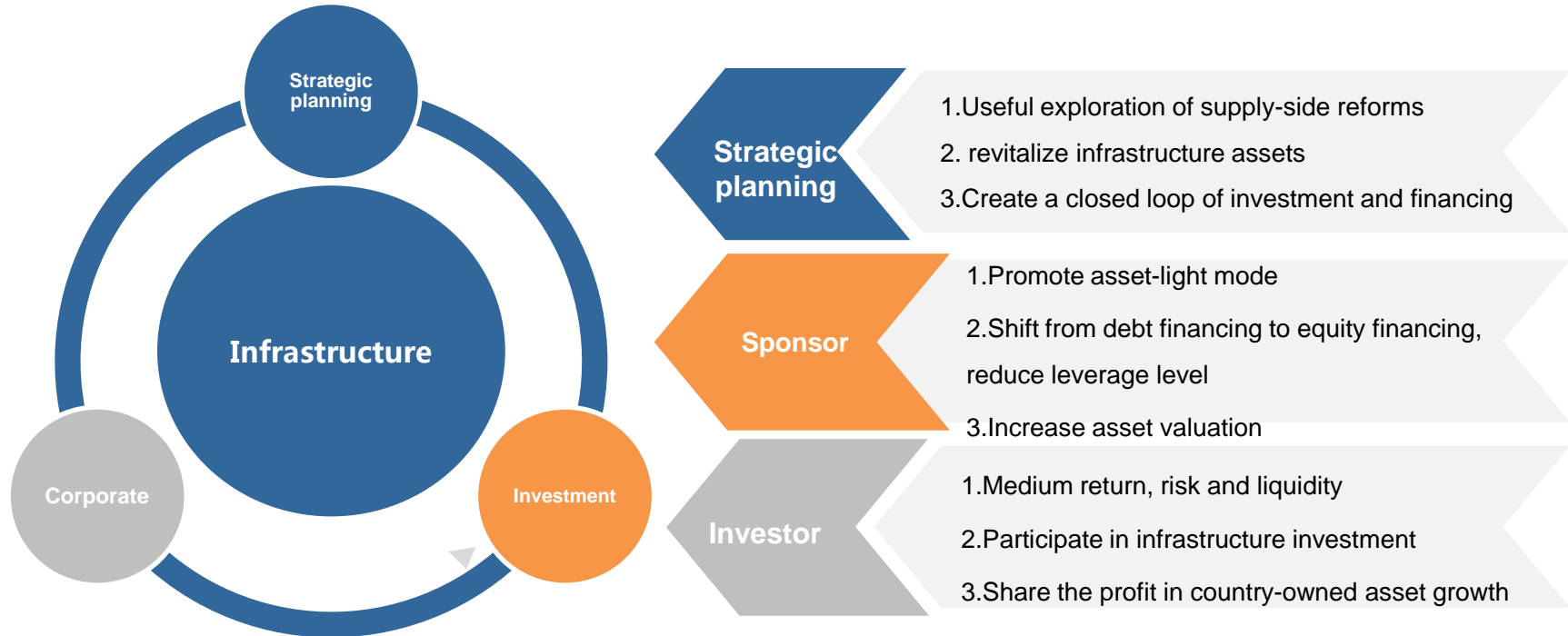
Country /Region	Existing REITs: Dec. 31, 2020		REITs Offerings: 2020	
	Market Cap (\$bn)	Amount	Market Cap (\$bn)	Amount
US	1,268.41	248	1.03	4
Europe	211.09	261	-	-
Japan	54.84	62	-	-
Australia	110.20	55	0.48	1
Singapore	73.50	35	0.30	1
Canada	57.91	38	-	-
Hong Kong	30.68	12	-	-
Thailand	8.66	48	0.07	2
Others	153.26	143	9.83	12
Total	1,968.55	902	11.71	20

Domestic Offerings of Quasi-REITs



1.2 Background

On April 30, 2020, the China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission (NDRC) jointly issued the Notice on Work in Relation to Advancing the Pilot Project for Infrastructure Real Estate Investment Trusts, marking the official launch of China's pilot program.

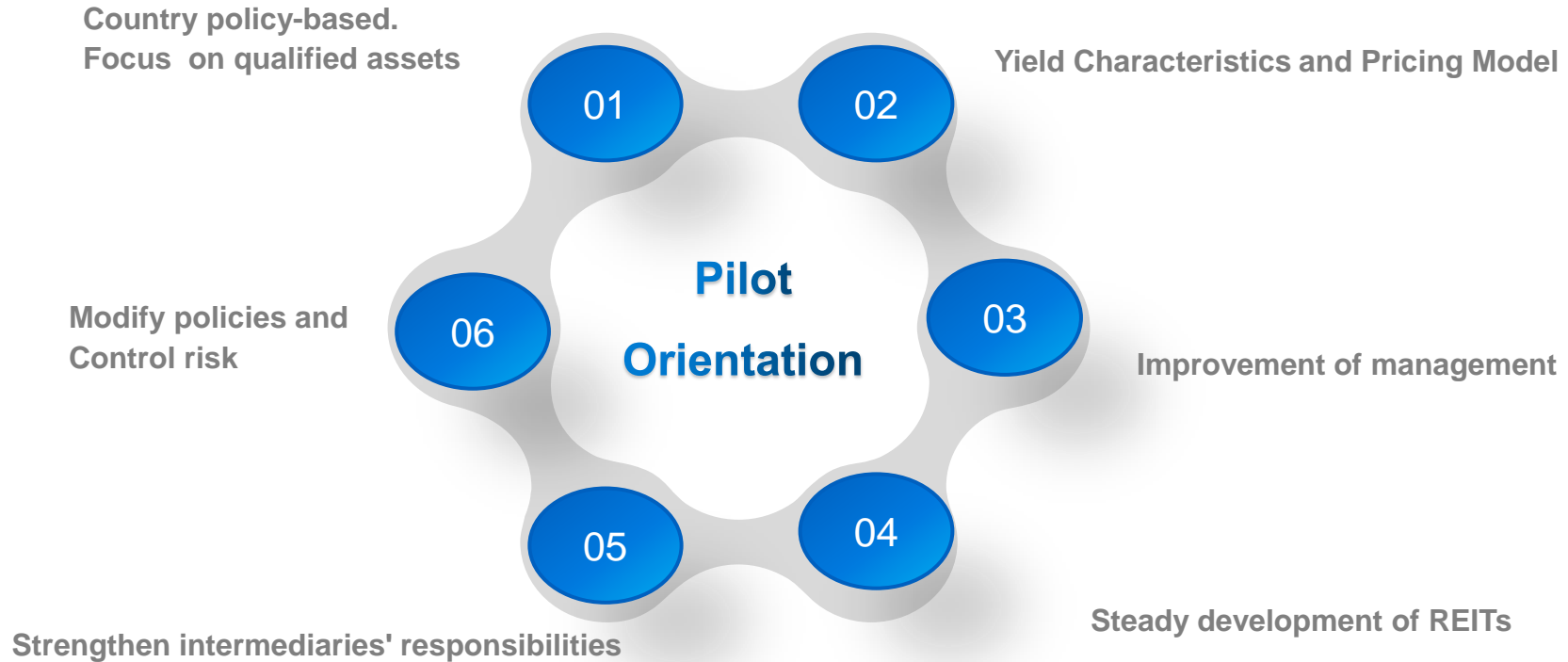




02

Overall arrangement

2.1 Pilot Orientation



2.2 Key Elements

Same Control

- The fund manager and the ABS manager must have an actual controlling relationship or both are controlled by the same entity

ABS

- More than 80% of the fund assets shall be invested in the ABS and hold 100% of the ABS securities. In addition to invest in ABS, the rest of the fund assets shall be legally invested in interest rate bonds, AAA-rated credit bonds or money market instruments
- The fund can invest in various ABS, which will further invest in project companies, thus enlarging the raising capital

Fully Control

- Ownership of SPV: The fund is required to hold all interests of the SPV through ABS
- Ownership of infrastructure assets: The fund is required to obtain the full ownership or operation rights of the infrastructure assets through structures such as ABS and the SPV, and to have full control and disposal rights of the special purpose vehicles and the infrastructure project

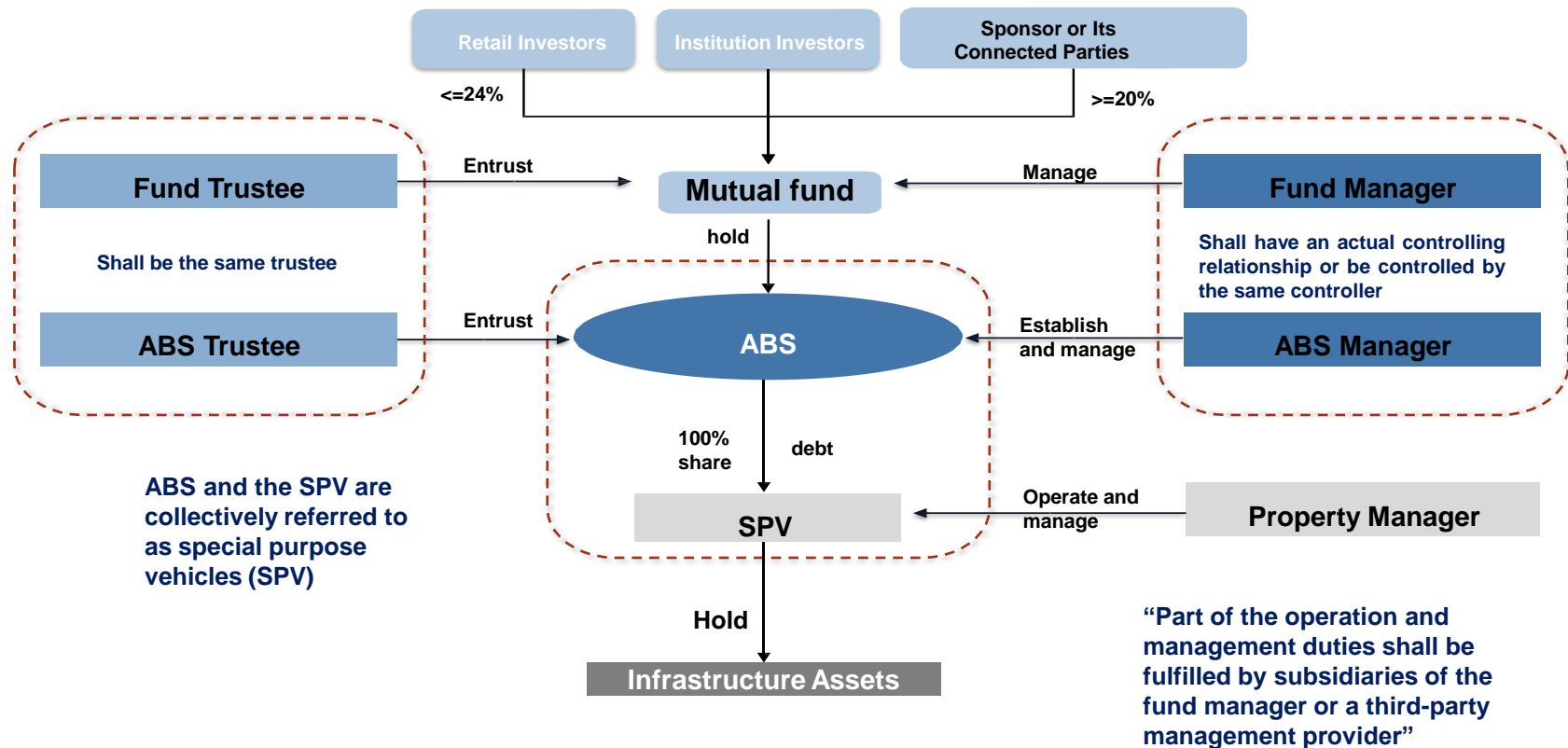
Close-end Fund

- The fund shall be close-end fund and can be traded publicly once meeting the statutory conditions and approved by the Exchanges in accordance with the law

90%

- The fund shall allocate more than 90% of the annual distributable amount of the consolidated fund to the investors in cash, which shall not be less than once a year if the allocation conditions are met

2.3 Transaction Structure



2.4 Division of REITs Pilot



中华人民共和国国家发展和改革委员会
National Development and Reform Commission

- Setting assets selection standards
- Pilot projects promotion
- Pilot projects selection

Co-operate



- Making rules
- Verification and registration
- Supervising REITs operation
- Cultivating investors

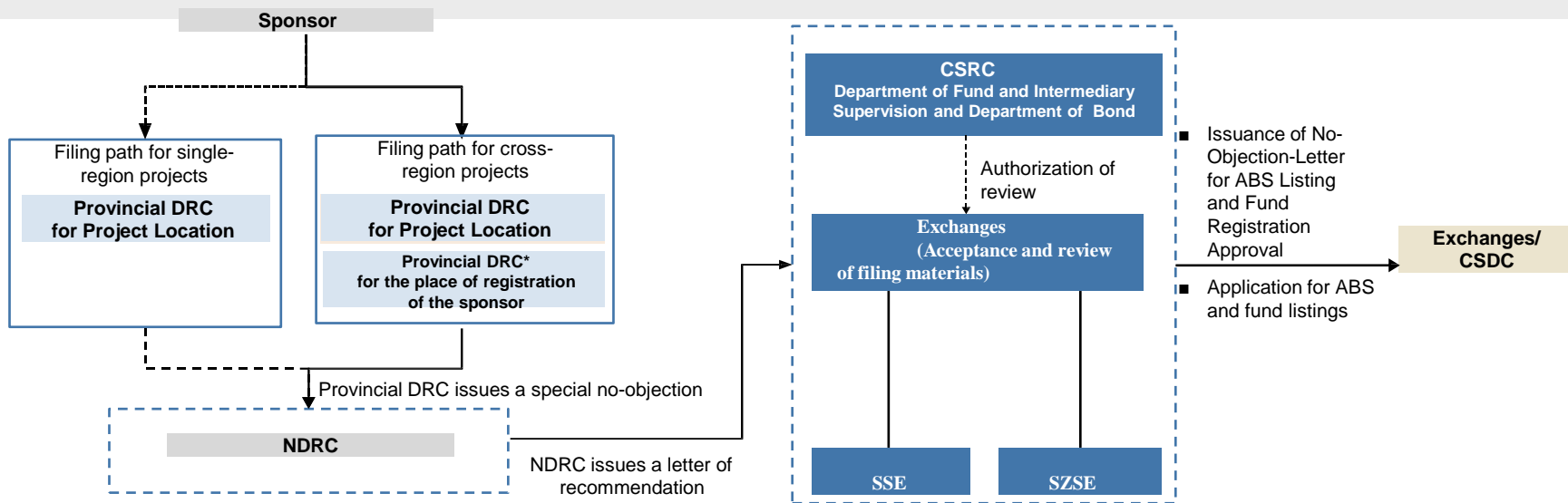
2.5 Related Policies

Introduction of Policies for China REITs

- On April 30, 2020, the CRSC and the NDRC jointly issued the ***Notice on Promoting the Pilot Program of Infrastructure Real Estate Investment Trust Funds (REITs)***
- On August 3, 2020, the NDRC issued the ***Notice on Effectively Performing Infrastructure REITs Pilot Project Application Work***
- On August 7, 2020, the CSRC issued the ***Guidelines on Publicly-traded Infrastructure Securities Investment Funds (for Trial Implementation)***
- On January 13, 2021, the NDRC issued the ***Notice on the Establishment of a National Infrastructure Real Estate Investment Trust (REITs) Pilot Project Tank***
- On January 29, 2021, the SSE and the SZSE issued the ***Business Rules for Publicly-traded C-REITs***
- On February 8, 2021, the AMAC issued the ***Guidelines on Due Diligence of Publicly-traded Infrastructure Securities Investment Funds (for Trial Implementation)*** and the ***Operational Guidelines on Publicly-traded Infrastructure Securities Investment Funds (for Trial Implementation)***

2.6 Filing Path for Pilot Projects








- For pre-approved pilot projects, the provincial development and reform commission (DRC) for where the assets are located is required to issue a special no-objection opinion to the NDRC.
- **Sponsor can not submit the filing materials to both the CSRC and the exchanges until recommendation letter from the NDRC are obtained.**
- While CSRC is primarily responsible for approving the offerings of public funds, while the exchanges are responsible for reviewing and issuing no-objection letters for ABS, sponsor shall simultaneously submit listing applications to the exchanges



Note*: If the sponsor is foreign-funded, it may entrust and authorize the sponsor to take the provincial DRC for one of the assets for filing.

2.7 Pilot Assets Categories

Key Industries for REITs: 7 Industries/24 Sub-industries + Qualified Park Infrastructure Assets

	Logistics	Warehousing and logistics
	Transportation	Tollways, railways, airports and ports
	Environmental Protection	Environmental treatment related estate
	Public Works	Urban water, power, gas and heat supply
	Manufacturing	Data center, AI and intelligent computing center
	TMT	5G, Network Tower, Internet of Things, Industrial Internet, Broadband Network, Cable TV Network
	Others	Smart Transportation, Energy and City

Special Requirements for Park Infrastructure Assets

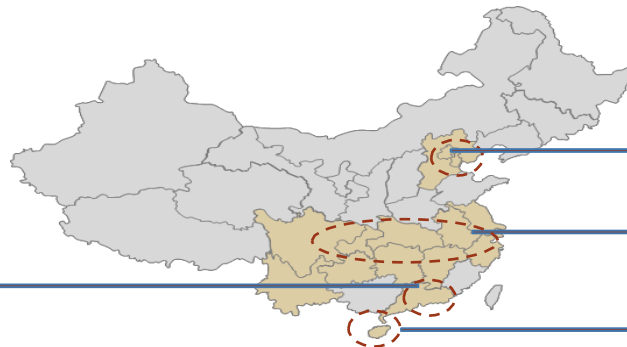
National strategic emerging industrial clusters: Beijing, Shanghai, Wuhan, Shenzhen and Hefei

Hi-tech/Characteristic Industrial Parks: Located in **2,543 development zones** in the <Catalogue of Review Announcements of Development Zones in China (2018 Edition)>, among which there are 552 development zones approved by the State Council and 1,991 local development zones

- **Business requirements:** R&D, innovative design and **pilotsale experiment platforms, industrial plants, business incubator** and industrial **accelerator**, etc.
- **Land use requirements:** The land used for the projects is **non-commercial and non-residential** land

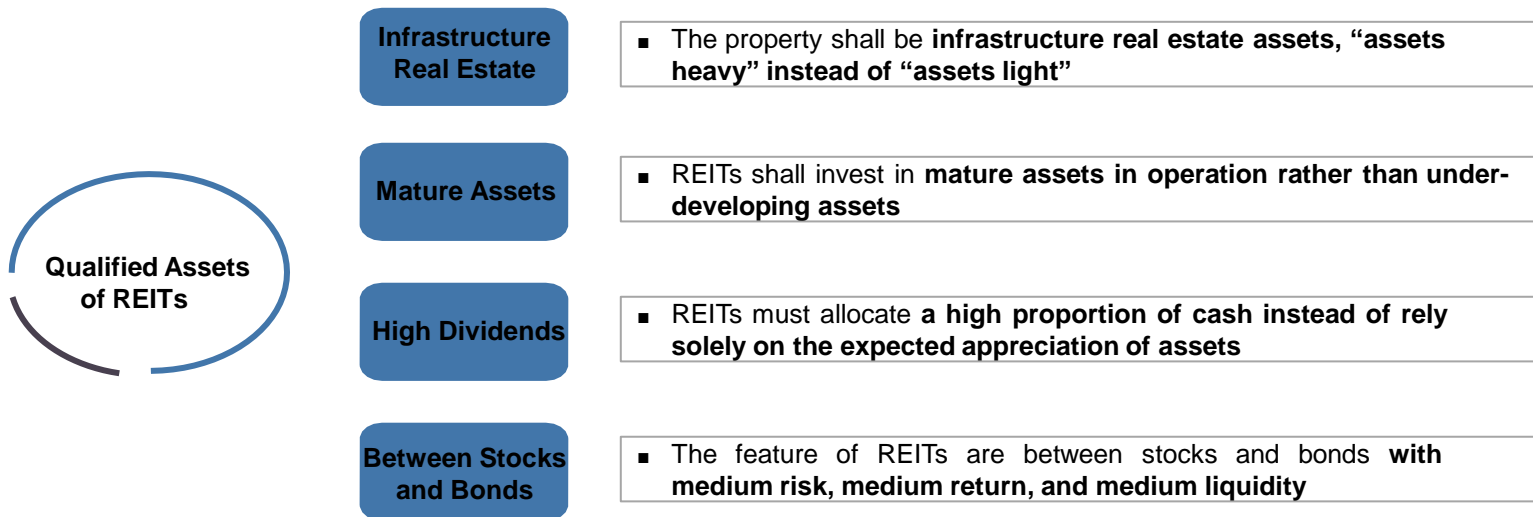
Prioritized Regions for the Pilot of REITs

✓ **The Greater Bay Area** includes: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, Zhaoqing, Hong Kong and Macau



- ✓ Beijing-Tianjin-Hebei region
- ✓ Xiongan New Area
- ✓ Yangtze River Economic Belt
- ✓ Yangtze River Delta Region
- ✓ Hainan Duty Free Port

2.8 Focus on Qualified Assets



Major Requirements

- Consecutive operation duration > **3 years, generally**
- **The sources of cash flows shall be reasonably diversified.** It should mainly come from operational revenue rather than depending on non-recurring income such as subsidies from third parties
- **Maintaining profitability or positive operational net cash flows for the past 3 years**
- The expected net cash flow distribution rate for the next 3 years (estimated annual distributable cash flows/ target net appraisal value of real estate) is in principle **not less than 4%**

2.9 Asset Selection Criteria

Basic Requirement

- **Pilot scope:** qualified types of asset that located in the pre-approved pilot regions
- **Ownership:** self-owned assets; legally entitled to project ownership, franchise rights or operation fee rights
- **Operation duration:** not less than 3 years in principle, and for some asset types, the duration can be determined based on the actual conditions when the operation and cash flow are stable
- **Cash flow:** the sources of cash flows shall be reasonably diversified, and the assets shall maintain profitability or positive operational net cash flows for the past 3 years

Compliance Requirement

- **Investment procedures for fixed assets:** completion of project approval or filing procedures; completion of planning, land use, environmental impact assessment and construction permit procedures; completion of project inspection and acceptance
- **Other procedures:** completion of other permitting procedures necessary for special assets (e.g. energy conservation review, value-added telecommunications business license, etc.)
- **PPP Projects:** meeting the regulatory requirements and the franchise operation requirements, and the revenue source should mainly comes from user-based payments

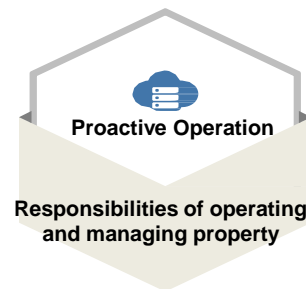
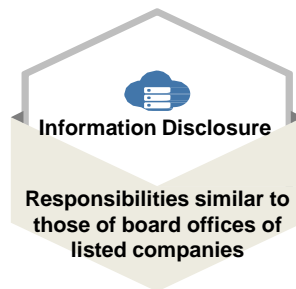
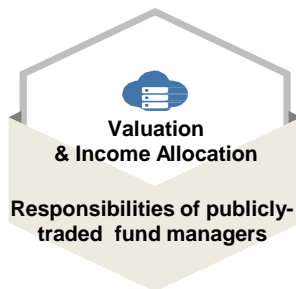
Return Rate Requirement

- **Project return rate requirements:** The expected net cash flow distribution rate for the next 3 years (estimated annual free cash flows/ net assets value) **shall not less than 4% in general**

2.10 Responsibilities of Fund Managers and Property Managers

Fund Managers

- Fund managers shall fulfill the qualifications in six aspects: establishment period, financial status, corporate experience, professional experience, institution regulation and compliance. In addition, fund managers should also meet other requirements stipulated by the CSRC



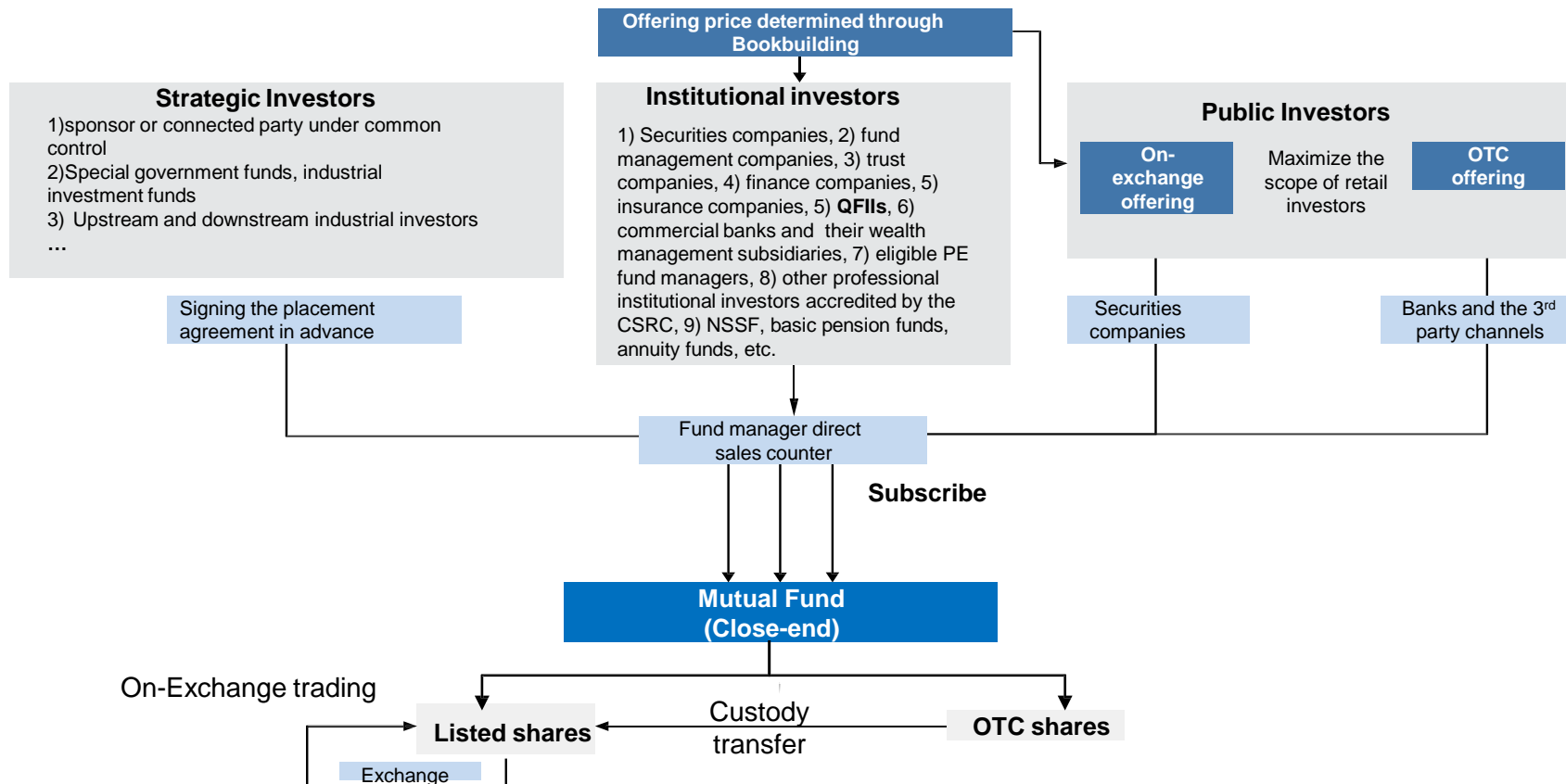
Property Managers

- **Responsibilities:** daily operation and management of infrastructure projects. When a third-party management institution accepts the entrustment, the property manager shall not delegate the principal responsibilities of the entrusted operation and management of infrastructure to other institutions

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**Offering and Trading
Issues**

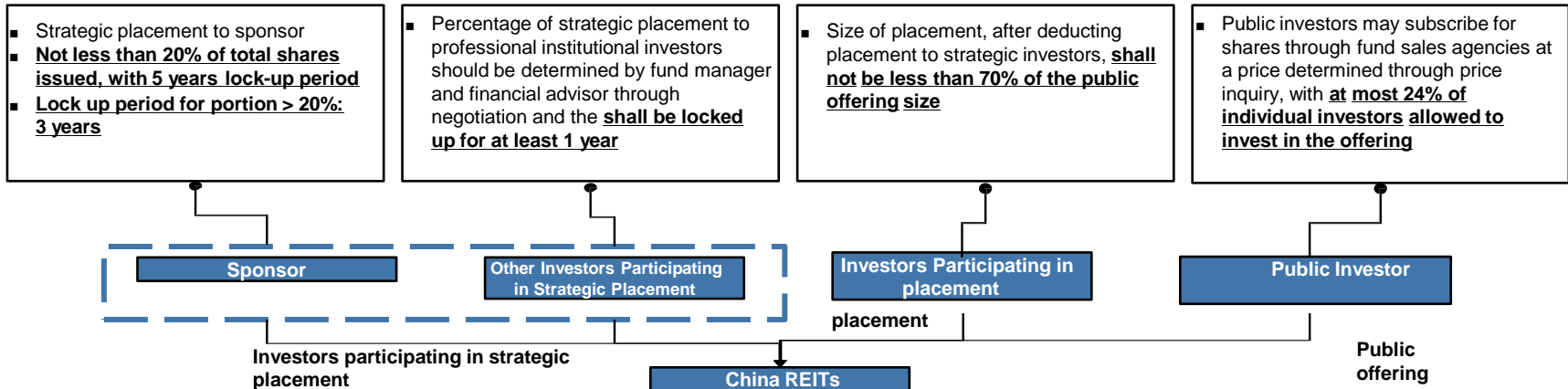
3.1 Investors



3.2 Offering Arrangements

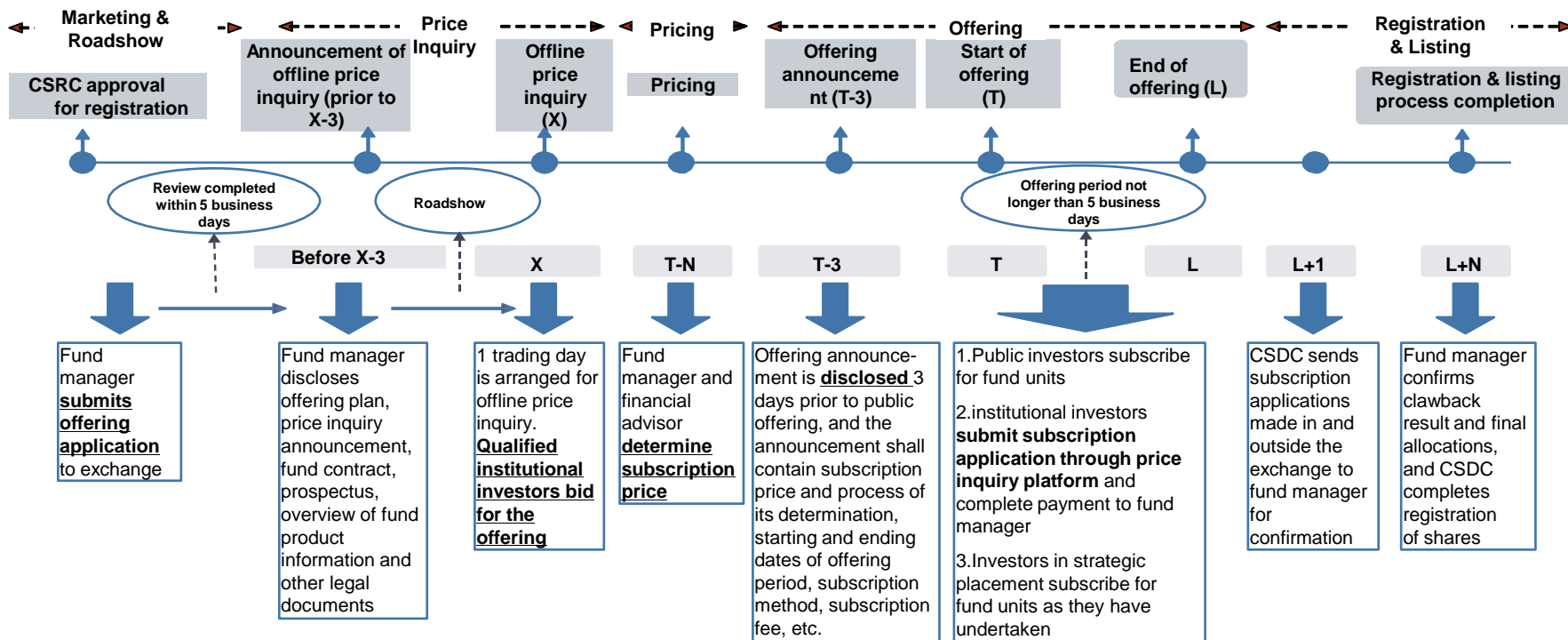
- **Offering:** The valuation of underlying assets is converted in ¥1 par value for each unit. The fund unit is priced via bookbuilding, following the practice in stock offerings, and issued in accordance with that in LOF offerings
- **Pricing:** Bookbuilding (via the exchange's electronic platform for placement) with institutional investors (ex. strategic investors)
- **Pricing process:** Roadshow → Bookbuilding → offering price determination
- **Offering method:** Strategic placement + bookbuilding based placement + public offering
- **Organizer:** Fund manager and financial adviser (if any, which is entrusted with roadshow, bookbuilding, pricing, placement, etc.)
- **Type of institutional investors:** Securities companies, mutual fund, trust, finance company, insurance company, private equity, commercial bank's wealth management subsidiaries, social security fund and other professional institutional investors

Investor Structure

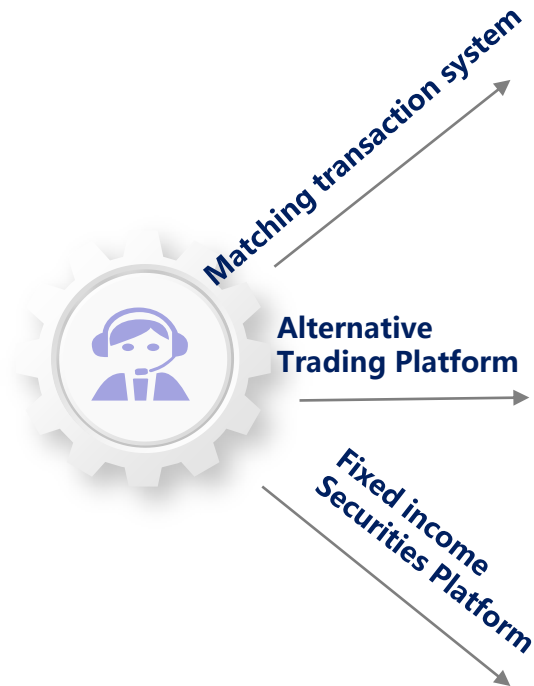


3.3 Offering Process

- After registration with CSRC, the subscription price of fund units are determined via offline price inquiry. The roadshow, price inquiry, pricing, placement and other relevant activities are carried out by the fund manager or the financial advisor engaged by it.



3.4 Trading Platforms



Auto-match transaction by price bidding
Similar to on-exchange funds trading

Block trade
Minimum 1,000 RMB, minimum distance 1,000 RMB

B2B/B2C , support bonds, bilateral bond repos and REITs Trading
Quotation transactions and price inquiry –based transactions

3.5 Other Details

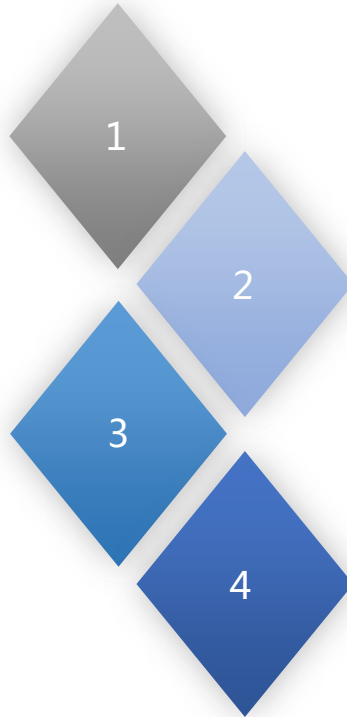
Market-maker

The market-making mechanism is introduced semi-compulsively. Fund managers shall, in principle, select no less than one liquidity service provider to provide services such as bilateral quotations for infrastructure funds.

The market-making mechanism is under improvement.

Margin Trading

Include securities margin trading: Security rights can be included, and whether it can be used as the underlying securities for margin trading is under talking



Price Range

Price fluctuation limit on the first day of listing is increase to 30%, and price fluctuation limit on other trading days is 10%

LOF

Settlement: T+1. **Follow LOF to conduct depository, clearing and settlement**



04

REITs in SSE

4.1 Exchange Duties



- ✓ **Rules Setting**
- ✓ **Verification**
- ✓ **Listing**
- ✓ **Disclosure**
- ✓ **Trading and Supervisory**
- ✓ **Market Development**



4.2 Information Displayed



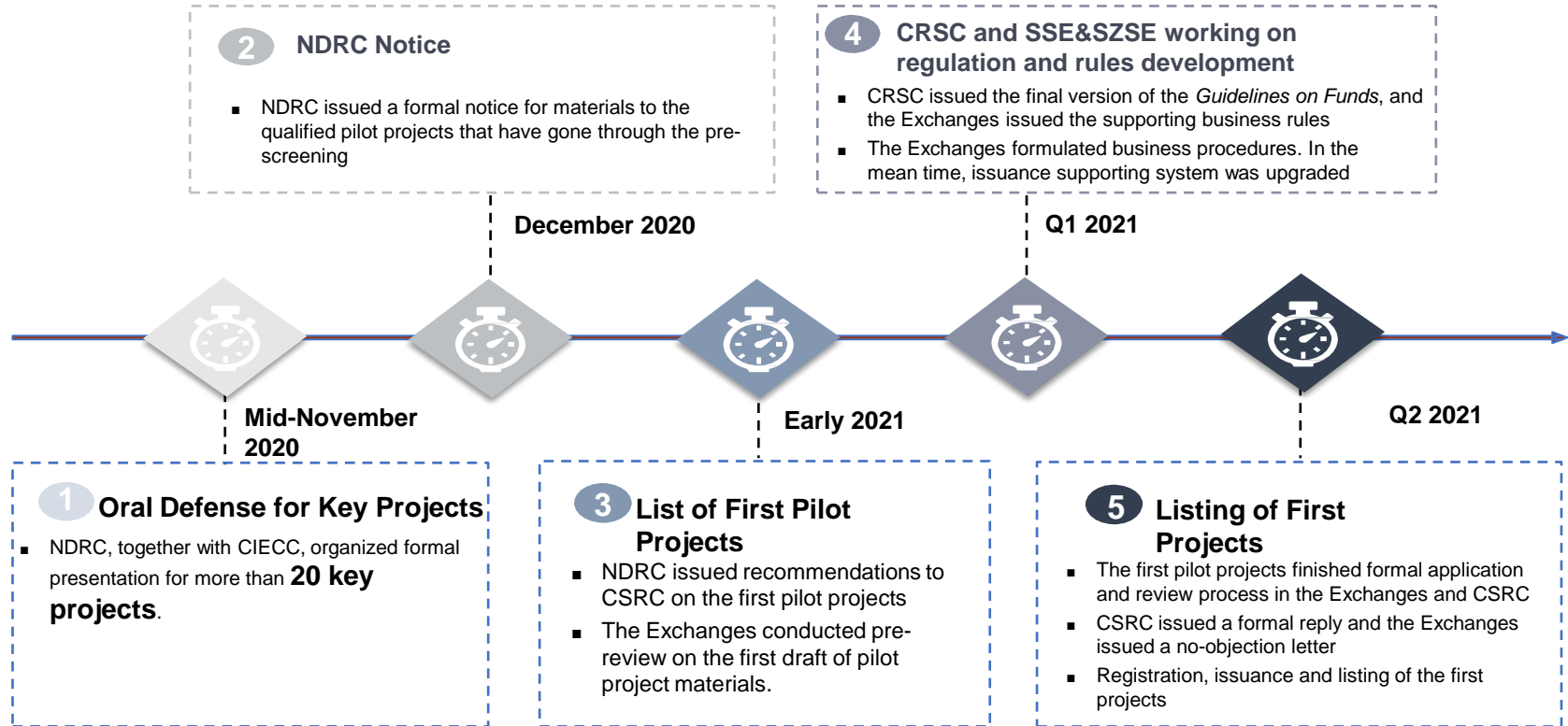
SSE website Regarding REITs

<http://www.sse.com.cn/reits/home/>

Access to verification process, listing and trading information, disclosure, investors education



4.3 Latest Updates



4.4 First REITs to be Listed in SSE

Name	Segment	Location	Underlying Assets	Net Cash Distribute Ratio (2021,2022)	Issue amount (Billion RMB)	Period (Years)	Price (RMB)	Fixed Fee	Floating Fee
DongWu- Suzhou Industrial Park Close-End Infrastructure Fund	Industrial Park	Suzhou	International Science 5 th project, Block B; 2.5 Industrial Park 1 st and 2 nd project	4.50% 4.54%	3.492	40	3.88	NAV*0.15%+Distributable Amount*1.05%	Sum of all parks' (net revenue-target net revenue)*40%
HuaAn-Zhangjiang-GuangDa Park Close-End Infrastructure Fund	Industrial Park	Shanghai	Zhangjiang-GuangDa Park	4.74% 4.11%	1.495	20	2.99	NAV*0.55%	Floating Fee=(previous year's net operating revenue-target revenue)*10%+(previous year's gross operating revenue *4%-NAV*0.2%)
CICC-GLP Logistics Close-End Infrastructure Fund	Logistics	Beijing, Guangzhou, Foshan, Suzhou, Kunshan	Logistics Parks in Beijing, Tongzhou, Guangzhou,Zengcheng, Shunde, Suzhou-Wangting and Dianshan Lake	4.45% 4.48%	5.835	50	3.89	Issue Amount*0.7%	Logistics rental revenue *floating rate
ZheShang-Shanghai-Hangzhou-Ningbo Expressway Close-End Infrastructure Fund	Toll Roads	Zhejiang Province	Hangzhou-Anhui Expressway (Zhejiang Parts)	12.40% 10.50%	4.36	20	8.72	NAV*0.125%	Year Revenue *(1.2%,1%,0.8%) with accordance to cash distribute ratio (>=10%,9-10%,<9%)
FuGuo-Beijing Capital Sewage Treatment Close-End Infrastructure Fund	Sewage treatment	Shenzhen, Hefei	375,000 tons/day capacity –sewage treatment BOT franchise project in Shenzhen, PPP project of Shiwuli River Sewage Treatment Plant with a Treatment capacity of 300,000 tons/ day in Hefei	8.74% 9.15%	1.85	26	3.7	NAV*0.1%+Operating Revenue*0.86%	Based on the result of EBITDA of the property company(6 ranges)



Thank You

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