INSTITUTO
UNIVERSITÁRIO
DE LISBOA

The Motivation and Economic Consequences of Spin-offs for China Real Estate Industry

HUANG Ping

Doctor of Management

Supervisors:
PhD Alexandra Marques Fernandes, Associate Professor with Aggregation,
ISCTE University Institute of Lisbon
PhD LI Qiang, Professor,
University of Electronic Science and Technology of China

December, 2025

BUSINESS
SCHOOL

Marketing, Operations and General Management Department

The Motivation and Economic Consequences of Spin-offs for China Real Estate Industry

HUANG Ping

Doctor of Management

Supervisors:
PhD Alexandra Marques Fernandes, Associate Professor with Aggregation,
ISCTE University Institute of Lisbon
PhD LI Qiang, Professor,
University of Electronic Science and Technology of China

December, 2025

BUSINESS SCHOOL

Marketing, Operations and General Management Department

The Motivation and Economic Consequences of Spin-offs for China Real Estate Industry

HUANG Ping

Doctor of Management

Jury:

PhD Luís Miguel da Silva Laureano, Assistant Professor
Iscte - Instituto Universitário de Lisboa
PhD João Manuel Jorge Estevão, Assistant Professor
Instituto Superior Técnico
PhD Loizos Petrides, Assistant Professor
Iscte – Instituto Universitário de Lisboa
PhD TIAN Yixiang, Professor
UESTC - University of Electronic Science and Technology of China
PhD Alexandra Martins Marques Fernandes, Associate Professor with Habilitation
Iscte – Instituto Universitário de Lisboa

December, 2025

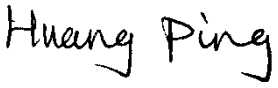
INSTITUTO UNIVERSITÁRIO DE LISBOA

The Motivation and Economic Consequences of Spin-offs for China Real Estate Industry

HUANG Ping

Declaration

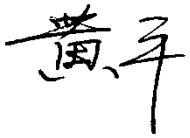
I declare that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university and that to the best of my knowledge it does not contain any material previously published or written by another person except where due reference is made in the text.

Signed:  Date: 2025.12.5

Name: HUANG Ping

作者申明

本人郑重申明：除了论文致谢中明确说明并致以谢意的部分外，所呈交的论文不包含任何他人或作者本人已用于获得任何教育机构的学位和证书而使用过的材料。同时尽我所知，除了文中特别加以标注引用的内容外，本论文不包含任何其他个人或集体已经发表或撰写的成果作品。

作者签名： 日期：2025.12.5

姓名(拼音)：HUANG Ping

[This page is deliberately left blank.]

Abstract

In recent years, the property management service segments of Chinese real estate enterprises have experienced rapid growth and have faced an urgent need for capital to support new project acquisitions and the upgrading of information systems. However, under the dual influence of policy and market, real estate parent companies themselves face severe financing constraints and are unable to adequately support the development of emerging businesses such as property management services. In this context, the separation of traditional real estate and property management has become an important means for real estate enterprises to alleviate financing difficulties and transformation.

The existing literature provides a comprehensive review of asset restructuring, corporate governance, internal capital markets, and diversification. This thesis adopts a case study approach, using the spin-off and listing of Country Garden Services from Country Garden Group as the primary case. A time-series analysis technique is applied and multiple data including documents, interviews and annual reports is collected. The quantitative data consists of 26 spin-off listed firms and their corresponding parent companies, as well as six non-listed firms. This thesis focuses on analyzing the motivations of Chinese real estate companies' spin-off listing, and analyzes the economic consequences including performance in capital market and business operating.

The findings indicate that the spin-off and listing of property services subsidiaries by Chinese real estate enterprises are driven primarily by financing needs and managerial incentive motivations. Following the spin-off, property services subsidiaries obtain substantial external financing, engage in large-scale project acquisitions, and gain access to independent equity incentive mechanisms, although the drawbacks of the internal capital market are not fully eliminated. After the spin-off listing, the asset–liability ratios of property services subsidiaries decline and operating scale grows rapidly. However, profitability continues to deteriorate and operational efficiency shows no significant improvement.

Keywords: Real estate, Spin-off, Internal capital markets, corporate governance, Operating performance

JEL: G32, L25

[This page is deliberately left blank.]

Resumo

Nos últimos anos, o segmento de serviços de gestão imobiliária das empresas do setor imobiliário chinês tem registado um crescimento acelerado, surgindo uma necessidade premente de capital para financiar a aquisição de novos projetos e a modernização dos sistemas de informação. Contudo, sob a dupla pressão das políticas governamentais e das condições de mercado, as empresas-mãe do setor imobiliário enfrentam severas restrições no acesso ao financiamento, não conseguindo apoiar adequadamente o desenvolvimento de novas áreas de negócio, como os serviços de gestão imobiliária. Neste contexto, a separação entre o negócio imobiliário tradicional e a gestão de propriedades tornou-se um mecanismo importante para que as empresas do setor possam ultrapassar as dificuldades de financiamento e concretizar a sua transformação.

A literatura existente apresenta uma revisão abrangente sobre reestruturação de ativos, governança corporativa, mercados internos de capitais e diversificação. A presente dissertação adota uma abordagem de estudo de caso, analisando a spin-off e subsequente admissão à cotação em bolsa da Country Garden Services, anteriormente integrada no Country Garden Group. A metodologia assenta na análise de séries temporais e na recolha de dados de diversas fontes, incluindo documentos, entrevistas e relatórios anuais. Os dados quantitativos abrangem 26 empresas resultantes de spin-offs admitidas à cotação, as respetivas empresas-mãe, bem como seis empresas não cotadas. A dissertação centra-se na análise das motivações subjacentes à decisão das empresas imobiliárias chinesas de realizarem spin-offs com admissão à cotação, examinando ainda as respetivas consequências económicas, designadamente o desempenho no mercado de capitais e a evolução operacional.

Os resultados revelam que as spin-offs e a subsequente admissão à cotação das subsidiárias de serviços de gestão imobiliária são motivados principalmente por necessidades de financiamento e por objetivos de incentivo à gestão. Após spin-offs, estas subsidiárias acedem a financiamento externo significativo, concretizam aquisições de projetos em larga escala e beneficiam de mecanismos autónomos de incentivo através de participação no capital, ainda que as limitações do mercado interno de capitais não sejam totalmente eliminadas. Na sequência de spin-off a admissão à cotação, os rácios de endividamento das subsidiárias de serviços de gestão imobiliária diminuem e a escala das operações expande-se rapidamente. Todavia, a rendibilidade continua a deteriorar-se e a eficiência operacional não evidencia melhorias significativas.

Palavras-chave: Imobiliário, Desmembramento e listagem separada, Mercado de capital interno, Governança corporativa, Desempenho operacional
JEL: G32, L25

[This page is deliberately left blank.]

摘要

近年来，中国房地产企业的物业管理服务业务蓬勃发展，新项目收购与信息化系统改造等经营管理过程中的资金需求巨大。然而，受政策和市场的双重影响，房地产企业自身面临巨大的融资约束，无法支持物业管理服务业务的创新发展。在此背景下，将传统地产开发和物业管理两类资产分拆上市，成为了房地产企业缓解融资困境和转型发展的重要手段。

本文在综述资产重组、公司治理、内部资本市场、多元化经营等相关研究的基础上，以碧桂园集团分拆碧桂园服务为案例，利用案例对象的文档、调研访谈、企业年报等时间序列数据，以及中国 26 家分拆上市企业及其母公司、6 家未上市企业的横向对比数据，重点分析中国房地产企业分拆上市动因，并从资本市场表现和经营绩效两个维度分析分拆上市的经济后果。

研究结果表明，融资需求和管理层激励是中国房地产企业将物业管理子公司分拆上市的主要动机。物业管理子公司获得较高融资，进行了大规模项目收购，拥有了独立的股权激励工具，但内部资本市场弊端未完全消除。分拆上市后，物业管理子公司资产负债率下降，经营规模实现高增长，但是盈利能力持续下降，运营能力无明显改善。

关键词：房地产，分拆上市，内部资本市场，公司治理，经营绩效

JEL: G32, L25

[This page is deliberately left blank.]

Acknowledgments

I. Aspiration and Attainment

In 2021, with the original aspiration of learning and self-improvement, I applied for the Doctor of Management (DoM) program jointly offered by the University of Electronic Science and Technology of China (UESTC) and the University Institute of Lisbon (ISCTE). After several years of coursework and thesis writing, the program has been profoundly rewarding. It not only enabled me to build a comprehensive understanding of financial management theories and to further improve my overall management knowledge system, but also helped me develop the habit of deep reflection and critical thinking. In both study and practice, I have learned to consistently ask “why” and “how.”

II. Sincere Gratitude

I would like to express my sincere gratitude to the University Institute of Lisbon (ISCTE), the School of Economics and Management of the UESTC, and the DoM program team. In particular, I am deeply grateful to Professor Virgínia Trigo and Professor Nelson António for their dedication and outstanding contributions to the program. Professor Xiao Wen recommended many valuable academic books that greatly enriched my learning experience, while Professor Virgínia Trigo provided timely and precise recommendations of literature related to case study research. Professor Feng Yi devoted significant effort to ensuring the smooth progress of the program, and the class advisor, Ms. Gao Xiaoli, consistently offered encouragement and care at critical moments.

My deepest appreciation goes to my supervisor, Professor Alexandra Marques Fernandes. Your meticulous, line-by-line revisions of the thesis, together with your continuous encouragement, provided me with confidence and motivation throughout the research process. When my progress was slow, you waited patiently while also urging me forward. Your spirit of craftsmanship, marked by precision, dedication, and genuine care, will remain with me always.

I am also profoundly grateful to my supervisor, Professor Li Qiang. You not only provided careful guidance during the proposal stage and the construction of the research framework but also offered timely insights whenever I encountered difficulties. Your willingness to devote additional time during the summer to revise my thesis was deeply moving. Your

professionalism, dedication, and academic rigor will continue to guide me in my future academic and professional life.

I would like to thank all the instructors who shared their knowledge generously. Courses such as Business Statistics taught by Professor Ma Yongkai, Financial Markets: Reform and Innovation by Professor Li Qiang, Business Development and Corporate Finance by Professor José Paulo Esperança, Empirical Research by Professor Elizabeth Reis, and International Marketing by Professor Rui Vinhas da Silva comprehensively enhanced my theoretical foundation.

I am deeply grateful to my wife for her understanding and unwavering support. Over these years, she shouldered nearly all family responsibilities, creating a peaceful and supportive environment that allowed me to focus on my studies with peace of mind.

III. Future Outlook

I will uphold the mission of the University Institute of Lisbon (ISCTE) to create and disseminate scientific knowledge in accordance with the highest international standards and to contribute to social progress. I will also adhere to the motto of the UESTC, “to seek fact and truth, to be noble and ambitious,” and maintain the academic spirit of “integrating knowledge with action and pursuing excellence.”

I look forward to applying the theories and insights gained during this program to practice and to creating greater value for society in the future.

致谢

一、理想与收获

2021 年怀着学习提升的初心，申请了电子科技大学与里斯本大学学院合作 DoM 管理学博士项目。历经数年课程学习与论文写作，收获颇丰。不仅打通了财务管理理论的全链路，完善了经营管理的知识体系，更养成了深度思考与批判性思维的习惯，凡事皆多问一句“为何”与“如何”。

二、真诚感谢

衷心感谢葡萄牙里斯本大学学院、电子科技大学经济与管理学院与 DoM 项目组。特别感谢项目组 Virgínia Trigo 教授、Nelson António 教授的辛勤付出。肖文教授推荐了许多宝贵的学习书籍，Virgínia Trigo 教授及时精准地为我推荐了案例研究相关书籍。冯毅教授为保障项目进展付出了巨大努力。班主任高小丽老师也常在关键时刻给予我鼓励与关怀。

衷心感恩导师 Alexandra Fernandes 教授。您对论文逐字逐句地精心修改，并持续给予我信心与动力。在我进度缓慢时，您耐心等待并督促。那份精益求精的工匠精神与爱心，令我铭记于心。

衷心感恩导师李强教授。不仅在论文开题与框架构建中进行悉心指导，而且每当我遇到难题时，您总能及时点拨。暑假期间仍额外加班帮我修改论文，这份付出令我深受感动。李老师的敬业精神与严谨作风，成为指导我未来人生的明灯。

感谢所有任课教师的倾囊相授。马永开教授的《商务统计学》、李强教授的《金融市场：改革与创新》、José Paulo Esperança 教授的《企业发展与公司财务》、Elizabeth Reis 教授的《实证研究》、Rui Vinhas da Silva 教授的《国际营销》等，让我的理论素养得以全面提升。

感谢我的夫人，感谢她的理解与全力支持。这几年家中事务皆由她承担，为我创造了安心学习的宽松环境。

三、未来展望

我将秉承葡萄牙里斯本大学学院的使命，依循最高国际标准创造与传播科学知识，推动社会进步。我将秉承电子科技大学“求真求实、大气大为”的校训，以“知行合一、

追求卓越”的学风持续自我要求。

期待将所学理论运用于实践，未来为社会创造更多价值！

Contents

Chapter 1: Introduction 1
1.1 Research background 1
1.1.1 Development status of China's real estate industry 1
1.1.2 Development trend of property management in real estate industry 3
1.1.3 The capital market financing of Chinese real estate enterprises 4
1.2 Research problem and research questions 6
1.3 Research objectives 7
1.4 Research content and framework 7
Chapter 2: Literature Review 9
2.1 Methods and characteristics comparison of asset restructuring 9
2.1.1 The main types of asset restructuring 9
2.1.2 Comparison of characteristics and selection of different asset restructuring methods 10
2.2 Background and policy evolution of spin-offs of listed companies in China 14
2.2.1 Main policies for spin-offs 14
2.2.2 Scope of spin-offs 15
2.2.3 The selection of spin-off mode by enterprises 18
2.3 The main motivation for enterprises spin-offs 19
2.3.1 Expansion of financing channels 19
2.3.2 Optimization of corporate governance 24
2.3.3 Implementation of focus-increasing 30
2.4 The economic consequences of enterprises spin-offs 33
2.4.1 The impact of spin-off on enterprises performance in the capital market 33
2.4.2 The impact of spin-off on enterprises operating performance 37
Chapter 3: Research Methods 39
3.1 Applicability of case study method 39
3.2 Considerations for case sample selection 41
3.3 Overview of case enterprises 41
3.3.1 Country Garden Group 41
3.3.2 Country Garden Services 44
3.3.3 Country Garden's spin-off process 46

3.4 Data collection and evidence analysis strategy 47
Chapter 4: Analysis of the Motivation for the Spin-off of Country Garden 51
4.1 Establishing an independent financing platform 51
4.1.1 Parent company's real estate business hit by industry downturn 51
4.1.2 Subsidiary's huge growth potential of the property management market 58
4.1.3 Comparison of capital market valuation between parent and subsidiary companies 62
4.2 Enhancing corporate governance standards 64
4.2.1 The efficiency of the internal capital market within the group 64
4.2.2 Incentive mechanism for the subsidiary management teams 68
4.3 Focus on core businesses 72
4.3.1 Comparison of business characteristics between parent and subsidiary enterprises 72
4.3.2 Growth pathways for property management business 76
4.3.3 The business strategies and core competitiveness of property management 80
Chapter 5: Evaluation of the Economic Consequences of Country Garden's Spin-off Listing 85
5.1 Performance in the capital market 85
5.1.1 Stock valuation 85
5.1.2 Financing capacity and capital structure 88
5.1.3 Acquisition transaction 94
5.2 The effect of corporate governance 96
5.2.1 Efficiency of internal capital market 96
5.2.2 The effect of management incentives 100
5.3 Evaluation of operational performance 102
5.3.1 Business scale and structure analysis 102
5.3.2 Profitability 108
5.3.3 Operational capability 114
Chapter 6: Research Conclusions, Discussion, and Limitations 119
6.1 Research conclusions 119
6.2 Discussion 120
6.3 Limitations 121
Bibliography 123
Webliography 129
Annex: Annex Tables and Figures 131

List of Tables

Table 1.1 Diversification of business by the top 15 real estate companies in 2018..... 2
Table 1.2 Asset-liability ratio of the top 15 real estate companies in 2018 6
Table 2.1 List of domestic listed companies selecting “A-share spun-off in mainland China” 15
Table 2.2 Quantity of spin-off property service subsidiaries of real estate companies 17
Table 2.3 List of spin-off property services subsidiaries of real estate companies..... 17
Table 3.1 Key milestones in the development of Country Garden Group 42
Table 3.2 Key milestones in the development of Country Garden Services..... 44
Table 3.3 Spin-off process of Country Garden 46
Table 3.4 Sources and dimensions of data collection 47
Table 4.1 Financial statement characteristics of Country Garden (2015-2020, Billion RMB) 55
Table 4.2 Compound annual growth rate of top 10 property management companies (2016-2018)..... 61
Table 4.3 Industry return on equity comparison (2018)..... 64
Table 4.4 Comparison of P/E ratios by industry (As of June 30, 2018) 64
Table 4.5 Performance share of property management services in Country Garden (Unit: Million RMB)..... 65
Table 4.6 Comparison of senior management income (2017) (Unit: RMB 1,000) 71
Table 4.7 Differences in business characteristics between property management services and real estate development 75
Table 4.8 Revenue sources and proportions of Country Garden Services (Before spin-off) (Unit: RMB 1,000,000)..... 78
Table 5.1 Comparison of P/E ratio trends 86
Table 5.2 Equity financing of Country Garden Services after spin-off listing 89
Table 5.3 Bond financing of Country Garden Services after spin-off listing 90
Table 5.4 Comparison of asset-liability ratios 91
Table 5.5 M&A transactions of Country Garden Services after spin-off listing 94
Table 5.6 Comparison of operating cash flow trends..... 98
Table 5.7 Share incentives for executive directors of Country Garden Services after spin-off listing (Unit: RMB 1,000) 101

Table 5.8 Industry trends in operating revenue growth rate 103
Table 5.9 Comparison of EBIT margin trends 109
Table 5.10 Comparison of total asset turnover ratio trends 115

List of Figures

Figure 1.1 Real estate sales volume and growth rate in China (2009-2024, Billion RMB) 1
Figure 1.2 Property management area in China (2009-2020, Million square meters)..... 4
Figure 1.3 Framework of research logic 8

[This page is deliberately left blank.]

Acronyms

A share: Chinese common stock

ASX: Australian Stock Exchange

BSE: Beijing Stock Exchange

CAAR: Cumulative average abnormal return

CAGR: Compound annual growth rate

CAR: Cumulative abnormal return

CSRC: China Securities Regulatory Commission

DCF: Discounted Cash Flow Model

EBIT: Earnings before interest and taxes

ECO: Equity Carve-out

EUR: Currency of the eurozone

GEM: Growth Enterprises Market

GFA: Gross floor area

HKD: HongKong Dollar

HKEX: HongKong Exchanges and Clearing

H share: HongKong common stock

IPO: Initial public offering

M&A: Mergers and Acquisitions

mn: Million

NPV: Net Present Value

NYSE: New York Stock Exchange

P/E ratio: Price Earnings Ratio

RMB: Renminbi, Chinese currency

ROA: Return on assets

ROE: Return on equity

SD: Standard deviation

SEO: Seasoned Equity Offerings

sq.m: square meters

STAR Market: The Science and Technology Innovation Board

TAT: Total Asset Turnover

VAS: Value-added services

Chapter 1: Introduction

1.1 Research background

1.1.1 Development status of China's real estate industry

The real estate industry in China has experienced rapid growth from scratch over the past thirty years since the initiation of housing monetization reform. According to data from China National Bureau of Statistics, the total sales of the real estate industry increased from RMB 4 trillion (EUR 0.5 trillion approximately) in 2009 to RMB 18 trillion (EUR 2.25 trillion approximately) in 2021 (see Figure 1.1), an increase of more than four times.

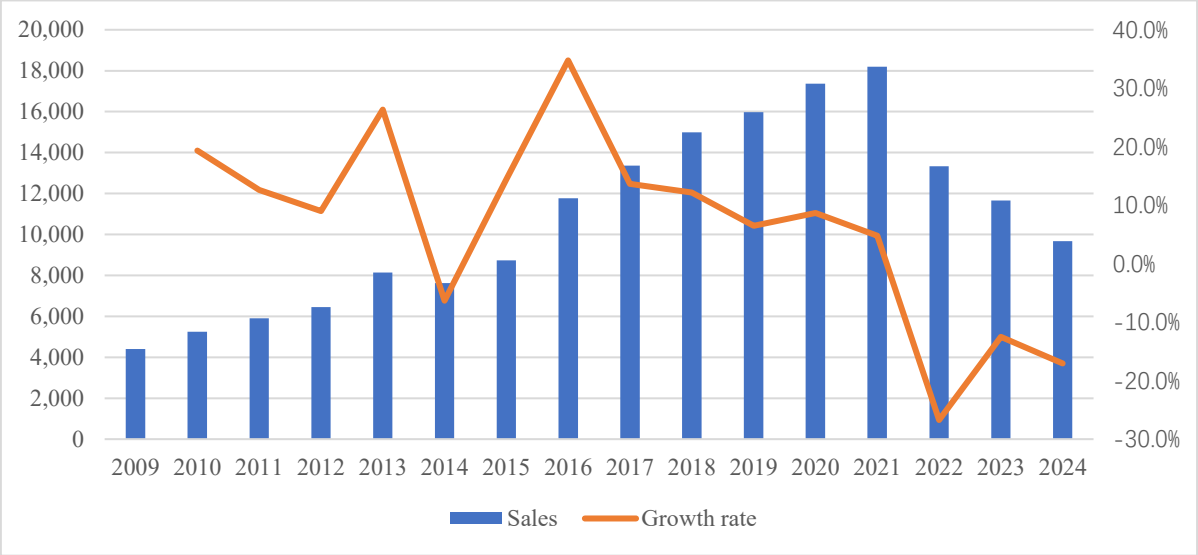


Figure 1.1 Real estate sales volume and growth rate in China (2009-2024, Billion RMB)

Source: National Bureau of Statistic of China (2024)

With an increasing number of housing stock, the housing needs of the Chinese population have significantly improved. The real estate industry is transitioning from rapid growth to a stage of slow growth, and even negative growth. Starting from 2016, the growth rate has been declining, and in 2022, negative growth became apparent.

In the process of urbanization in China, an increasing number of people are moving from rural areas to cities, leading to a rapid growth in residential housing demand. After years of development, China's urbanization rate increased from 30% in 1996 to 67% in 2024 (see Figure A1.1 in the Annex), more than doubling. Considering China's vast rural land area and other factors, as the urbanization rate in China approaches 75%, it is getting closer to its growth peak.

At the same time, with the rapid development of China's real estate industry, the per capita residential area for Chinese residents has increased from less than 10 square meters per person initially to over 40 square meters per person, nearly a fivefold increase. The continuous improvement in per capita residential area and the delivery of large-scale housing projects in recent years indicate a declining trend in the demand for first-time home buyers.

Therefore, the scale of the real estate industry will gradually reach its historical peak, and real estate companies will face development bottlenecks. Leading real estate companies with strong capabilities are beginning to diversify and actively invest in businesses to explore the 'second curve' for sustained performance growth.

According to statistical data, the top 15 real estate companies in 2018 have essentially diversified their business operations, with the number of business types ranging from a minimum of 2 to a maximum of 10 (see Table 1.1). Most of these businesses are related to the real estate sector, such as property management, hotels, construction, commercial real estate, and other related areas, following a strategy of related diversification. A few real estate companies have also ventured into unrelated businesses such as modern agriculture, health management, and new energy vehicles.

Table 1.1 Diversification of business by the top 15 real estate companies in 2018

S.N.	Company name	Core business	Diversified business	Qty.
1	Country Garden	Residential real estate	Property management, hotels, construction, modern agriculture and construction robots	5
2	Vanke	Residential real estate	Property management, residential leasing, commercial real estate development and operation, logistics and warehousing services, standard offices and industrial parks snow and ice vacations, elderly care and education	8
3	Evergrande	Residential real estate	Property management, tourism, health management and new energy vehicles	4
4	Sunac	Residential real estate	Property management, cultural tourism, industrial real estate, commercial real estate, hotels and cultural entertainment	6
5	Poly	Residential real estate	Property management, real estate brokerage, business management, construction, real estate funds; exhibition, cultural tourism, health care, education and apartments	10
6	Greenland	Residential real estate	Construction, finance, import trade, hotel and tourism, automotive services and energy	6
7	China Overseas	Residential real estate	Commercial real estate (office buildings, co-working spaces, shopping centers, hotels, long-term apartments), architectural design, education and health care	8
8	Xincheng	Residential real estate	Commercial real estate (commercial complexes, shopping centers), hotel operations and design consulting	4

9	Shimao	Residential real estate	Property management, commercial real estate, hotels and entertainment	4
10	Gemdale	Residential real estate	Property management, commercial real estate, industrial real estate and real estate finance	4
11	Greenland	Residential real estate	Construction management, finance, hotels, design and decoration	4
12	Longfor	Residential real estate	Property management, commercial real estate and long-term apartments	3
13	YanGo	Residential real estate	Commercial real estate, hotels and construction	3
14	CIFI	Residential real estate	Commercial real estate (office, commercial complexes)	2
15	CR Land	Residential real estate	Property management, shopping centers, health care real estate, long-term apartments, industrial funds and industrial real estate	6

The real estate industry is undergoing a profound transformation, extending vertically along the value chain. For instance, while the traditional focus was primarily on development, construction, and sales, there is now a growing need to pay more attention to how deeper and tighter connections with customers can be established at the back end of sales to enter the field of existing property operations. With the arrival of the era of existing properties, whether the property management industry, which is highly interrelated with real estate development business, can become a new growth point is a subject of consideration.

1.1.2 Development trend of property management in real estate industry

In accordance with the annual reports of listed companies, in 2018, out of the top 15 real estate companies, 9 of them were actively involved in property management, accounting for 60% of the total. Real estate companies consider several key factors when selecting new business categories: a significant market size and growth potential, ample cash flow and profits that can lead to higher market valuation, which is advantageous for IPO financing; and the fact that their asset size is relatively small compared to their core real estate business, thereby not negatively impacting the valuation of existing listed entities. Property management naturally meets these conditions and has become an important choice for mainstream real estate companies.

As China’s urbanization rapidly advances and per capita disposable income continues to grow, the demand for quality property management services keeps increasing. The total property management area in China has doubled from 11.7 billion square meters in 2009 to 23.5 billion square meters in 2020 (see Figure 1.2), showing steady annual growth of 5%-6%. Considering the service fees per square meter for residential and commercial properties, assuming a range of RMB 3-4 per square meter per month, the total market size of property management services exceeds RMB 1 trillion (EUR 0.125 trillion approximately). According

to data from China Index Academy, the market size of basic property management in China reached RMB 1.06 trillion (EUR 0.13 trillion approximately) in 2018.

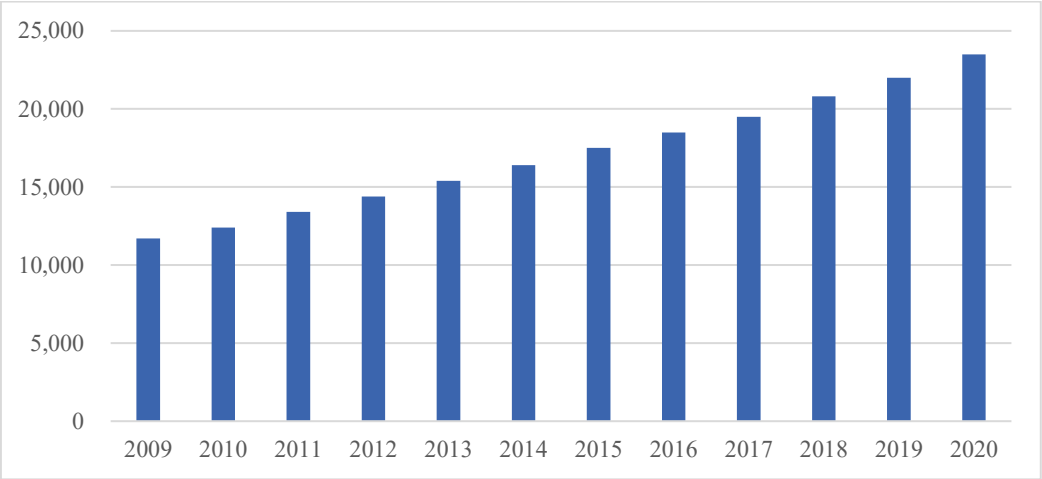


Figure 1.2 Property management area in China (2009-2020, Million square meters)

Source: Guosheng Securities Research Institute (2018)

Property management refers to the maintenance and management of buildings and facilities by property service enterprises as well as the maintenance of environmental hygiene, including property management services and value-added services. Compared to real estate development, the property management services industry exhibits significantly different characteristics. Firstly, in terms of industry cyclicality, the real estate sector experiences significant fluctuations due to influences from the economic environment, monetary policies, and government regulations. In contrast, property management services are characterized by less cyclicality, with relatively stable growth in revenue and profit. Secondly, real estate development is a capital-intensive industry, involving substantial investment, high risks, and long return cycles. Property management services, however, belongs to the asset-light sector, with a relatively small proportion of fixed assets, lower risks, and existing property projects provide a continuous and stable cash flow. Thirdly, for real estate development, the land cost and construction cost is the major part, whereas the property management industry is labor-intensive, and labor costs constitute the largest proportion of operating costs.

With the shrinkage of the real estate development market and the rapid growth of property management services, obtaining funding through the capital market to support property management services will help achieve performance growth and create value for shareholders.

1.1.3 The capital market financing of Chinese real estate enterprises

Real estate development is a capital-intensive industry, involving a lengthy development cycle of approximately 5 years or more, from land acquisition and construction to project completion

and delivery. As a result, it demands significant capital investments. Simultaneously, the real estate industry is subject to the most substantial regulatory measures by the national government, aimed at mitigating financial risks and preventing real estate bubbles. On the capital side, regulatory authorities at the national level exercise control at various stages, including Initial Public Offerings IPO financing, Seasoned Equity Offerings SEO, corporate bond, construction and development loans, and customer mortgage loans.

According to data from China Wind financial database, real estate companies raised funds through IPO on the A-share market from 1992 to 2009, with annual amounts ranging from RMB 1 billion (EUR 0.125 billion approximately) to RMB 5 billion (EUR 0.625 billion approximately) (see Figure A1.2 in the Annex). However, after 2009, there were virtually no real estate companies' IPO on the A-share market. The amount of capital raised by real estate enterprises through secondary offerings in the A-share market was only approximately RMB 20 billion (EUR 2.5 billion approximately) annually, except for the market surge in 2015-16 (see Figure A1.3 in the Annex). Given the difficulties in equity financing within China's mainland A-share market, real estate companies turned to the Hong Kong stock market for IPO funding. The period spanning 2006, 2007, and 2009 witnessed the peak of property developers listing in Hong Kong, with the total funds raised each year ranging between RMB 10 and 40 billion yuan (between EUR 1.25 and 5 billion approximately) (see Figure A1.4 in the Annex).

However, bond financing of real estate companies have been steadily increasing. Starting from 2019 with a bond fundraising amount of RMB 170 billion (EUR 21.25 billion approximately), the bond fundraising exceeded RMB 300 billion (EUR 37.5 billion approximately) in 2020 and 2021(see Figure A1.5 in the Annex). Simultaneously, medium-term notes in the form of debt financing have also exceeded RMB 120 billion (EUR 15 billion approximately) in 2020 and 2021 (see Figure A1.6 in the Annex).

Compared to the real estate development industry's annual sales scale of RMB 10 trillion, the amount of real estate equity financing is exceedingly low, while debt financing has been continuously increasing. The combination of these two factors has resulted in a generally high asset-liability ratio for real estate development enterprises. Among the top 15 property developers in 2018, only one company had an asset-liability ratio of 60%, seven companies fell within the 70%-80% range, and another seven exceeded 80% (see Table 1.2).

Table 1.2 Asset-liability ratio of the top 15 real estate companies in 2018

S.N.	Company name	Total assets (RMB 1 billion)	Total liabilities (RMB 1 billion)	Liability/asset ratio
1	Country Garden	1,630	1,456	89%
2	Vanke	1,529	1,293	85%
3	Evergrande	1,880	1,571	84%
4	Sunac	717	644	90%
5	Poly	846	660	78%
6	Greenland	1,037	928	89%
7	China Overseas	725	432	60%
8	Xincheng	330	279	85%
9	Shimao	378	272	72%
10	Gemdale	278	212	76%
11	Greentown	280	220	79%
12	Longfor	507	366	72%
13	YanGo	263	222	84%
14	CIFI	241	192	79%
15	CR Land	656	475	72%

In recent years, the government has introduced the policy of "housing is for living, not for speculation" and implemented the policy of Three Control Lines for real estate companies, further restricting their financing capacity.

1.2 Research problem and research questions

The research problem is: In recent years, the property management services sector within real estate companies has been thriving and requires additional capital for purposes such as new project acquisitions, and the implementation of information technology system upgrades. This aims to expand their business scale, increase market share, and enhance internal operational management efficiency, as well as financial metrics like operating revenue and profits, ultimately increasing the company's value. However, real estate companies are facing significant financing constraints, making it challenging to secure sufficient financial resources, which hampers the development of new businesses like property management services.

The research questions include:

(1) What are the primary motivations for spin-offs?

When making financial decisions, such as financial strategies, investment strategies, financing methods, and capital operations, companies need to consider various factors. However, what truly motivates financial decisions is both a theoretical and practical question. This not only involves decision logic but also affects the outcomes of decisions.

From a review of the literature, the main motivations for Spin-offs can be summarized as the financing, information asymmetry, corporate governance, internal capital market,

management incentive, and focus-increasing. For specific case studies, we need to assess the company's strategic goals, internal and external environments, corporate resources, and other factors to determine the specific motivations behind its Spin-offs.

In this case study, we will analyze the development trends in the real estate industry, the state of the capital market, government policies, industry characteristics, financing schemes, and corporate governance. We aim to identify the true motivations behind the Spin-offs of Country Garden and provide valuable insights for the financial decision-making of other companies.

(2) What are the economic consequences of spin-offs?

After making and implementing financial decisions, it is necessary to calculate the economic consequences. This is used to evaluate the rationality of financial decisions, whether they contribute to efficient resource allocation, and whether they support the achievement of corporate strategic goals.

In this case study, based on a review of the literature, trends in the real estate industry, the state of the capital market, government policies, and corporate operational strategies, the economic consequences will primarily focus on whether Spin-offs help improve financing capabilities, enhance corporate governance, and strengthen company performance.

1.3 Research objectives

The development of every industry or company can encounter peak or bottleneck situations. Finding new sources of business growth in mature industries or companies is crucial for enhancing corporate and shareholder value. Spin-offs, as a capital market tool, offer powerful drivers for solving financing challenges, achieving focus-increasing, and improving corporate governance in support of new business development.

The research objective of this paper is to provide a valuable reference case by exploring the motivations and economic consequences of Spin-offs for other companies in similar situations to use Spin-offs as a solution to address financing constraints, focus-increasing, and management incentives in their pursuit of new business development. Ultimately, this will lead to an increase in corporate value.

1.4 Research content and framework

The literature review comprehensively reviews the types of assets restructuring such as spin-

offs listing, the motivations of spin-offs such as financing needs, corporate governance and focus-increasing strategies, and the economic consequences of spin-offs such as capital market indicators, corporate governance effects and business performance, so as to build a complete research logical framework (see Figure 1.3).

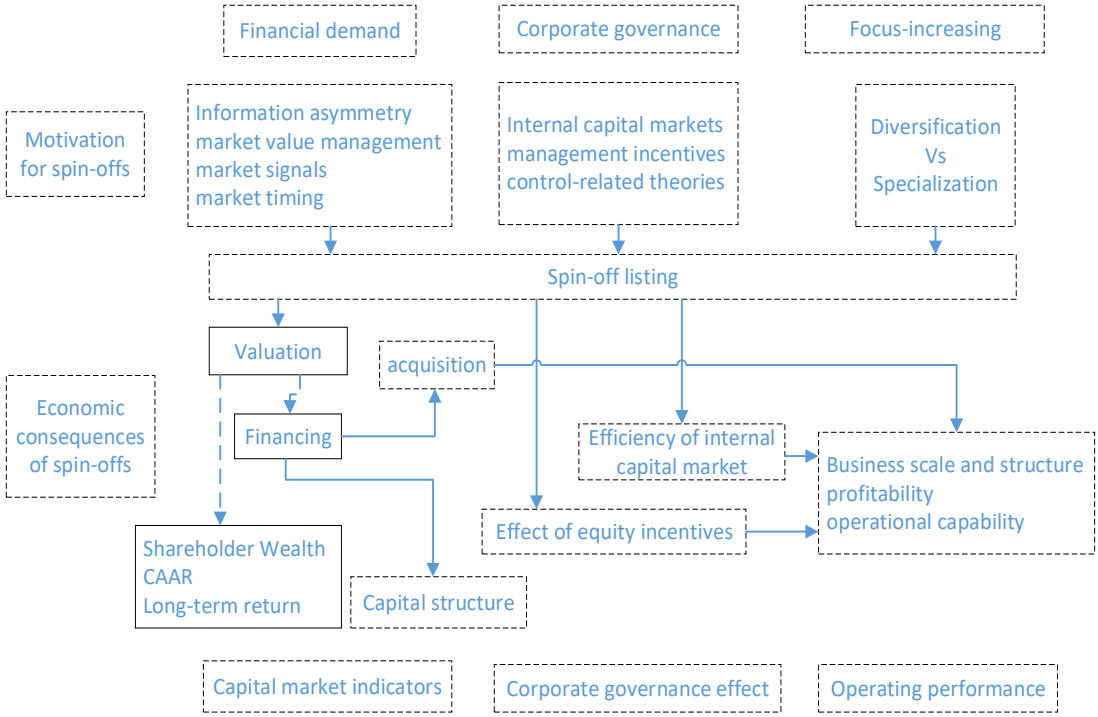


Figure 1.3 Framework of research logic

The research scope of this thesis belongs to financial management, and the thesis analyzes the effect of spin-off listing from operation and management perspective. Therefore, the impact of shareholder wealth is not quantitatively studied.

At the time of the spin-off, the operating revenue of the parent group's real estate development was 82 times that of the property management subsidiary (RMB 379 billion vs RMB 4.6 billion) (EUR 47.375 billion Vs EUR 0.575 billion), and the total assets were 296 times that of the property management subsidiary (RMB 1,629.6 billion vs RMB 5.5 billion) (EUR 203.7 billion Vs EUR 0.6875 billion). The impact of the spin-off on the parent company of real estate is relatively small, while the impact on the property management subsidiary is greater. Therefore, the thesis focuses on the economic consequences of spin-offs for subsidiaries.

Chapter 2: Literature Review

2.1 Methods and characteristics comparison of asset restructuring

2.1.1 The main types of asset restructuring

Once the parent company's management has decided to restructure its operating divisions, it must assess various divestiture strategies. First, the parent company can spin off the subsidiary by distributing shares to its current shareholders. Second, the parent company can undertake an equity carve-out, selling shares in its subsidiary through an initial public offering. Lastly, the parent company can opt to sell the assets directly, i.e., sell the subsidiary to a third party through private negotiations.

Krishnaswami and Subramaniam (1999) defined a spin-off listing as the distribution of shares of a company's subsidiary to its shareholders proportionally. This approach neither dilutes the equity nor transfers ownership from existing shareholders. After the distribution, the operations and management of the subsidiary were separated from those of the parent company. The spin-off listing is a unique form of asset restructuring as it does not involve cash transactions.

Vijh (1999) defined equity carve-out as when a parent company raises funds by selling a portion or all the equity of its wholly owned subsidiary to the public. Powers (2003) defined ECOs as instances where a parent company sells a portion of its subsidiary's stock through an Initial Public Offering (IPO), combining elements of restructuring and financing transactions. Characteristics of ECOs as below. Firstly, the subsidiary's stocks can be publicly traded on the secondary market. A public offering of a subsidiary can raise cash for the subsidiary, and the parent company can also raise capital by selling shares in the subsidiary. Secondly, the subsidiary's public offering introduces a broader range of investors, diversifying the shareholder base. Finally, it is required to disclose more information about its operations and development to the public.

Guo and Wan (2010) characterized an asset sale as the divestiture of a business segment owned by the parent company, where the parent company no longer holds any shares, resulting in cash inflows. After the sales, the business division is not immediately traded on the secondary market.

Contrary to the divestiture strategies, the management will also adopt the parent-subsidiary mergers to restructure assets. The parent-subsidiary mergers means that the parent company issues shares publicly and canceling the shares of the original listed subsidiary, or the listed subsidiary purchases the assets of the parent company, and the parent and subsidiary companies are integrated into one listed company. X. Deng (2004) summarized two models of parent-subsidiary mergers. The first model, with the subsidiary taking the lead, involves the subsidiary purchasing the operating assets of its parent company, thereby achieving the listing of the parent company's operating assets. The second model, with the unlisted parent company as the focal point, entails the parent company retrieving the previously issued stocks of its subsidiary that were traded publicly and canceling them. Subsequently, the entire parent company's assets undergo a new IPO, resulting in parent-subsidiary mergers. Slovin and Sushka (1998) concluded, after studying parent-subsidiary merger transactions, that such mergers facilitate corporate restructuring, promotes the reallocation of resources toward higher-value uses, and enhances value for both the parent and subsidiary companies.

2.1.2 Comparison of characteristics and selection of different asset restructuring methods

Bergh et al. (2008) contended that managers compared alternative implementation plans and then selected the one they deemed most effective in addressing the restructuring motives while generating the highest financial returns. Their research delved into how managers made choices among corporate restructuring implementation plans and how these decisions impacted the profitability of restructuring events. Managers and owners grapple with information asymmetry regarding assets in the context of diversification strategies before and after restructuring, and managers make choices between implementation plans to transform knowledge disparities into financial gains.

Three differences exist between equity carve-outs and spin-offs. First, regarding the ownership of subsidiary's shares, in an equity carve-out, the subsidiary's shares are sold to new shareholders, however, in a spin-off, all the shares of the subsidiary are distributed proportionally to the shareholders of the parent company Second, for the proportion of subsidiary's equity, in an equity carve-out, the parent company usually retains a certain stake in the subsidiary, while a spin-off typically involves a complete separation of the parent and subsidiary. Third, about the cash flow effect, in ECOs, either the parent or the subsidiary can generate cash flows, whereas in a spin-off, neither the parent nor the subsidiary generates cash flows.

Michaely and Shaw (1995) conducted research on the selection mechanism between ECOs

and spin-offs as two contraction strategies, using 91 publicly listed U.S. companies from 1981to 1988 as their samples. They found that companies with higher risk, higher leverage, and lower profits were more inclined to opt for spin-off. ECOs undergo more rigorous scrutiny and information disclosure compared to spin-offs. This suggests that the ease of accessing the capital market is also a significant factor when choosing the method. The research conducted by Frank and Harden (2001) studied a sample of 140 companies from 1991 to1997. Under the following circumstances, equity carve-outs are preferred: higher cash requirements for parent companies, faster growth and higher profits of the subsidiary, the closer relationship between the subsidiary and the parent's industry, with a need for consolidated financial statements. Powers (2001) conducted research on the determining factors influencing the selection of restructuring methods, including samples of 187 companies for spin-offs, 204 companies for asset sales, and 181 companies for ECOs listings from 1981 to 1998. It is found that the primary factors influencing the choice were the quality of the division being divested and the parent company's need for external capital.

H. L. Chen and Guo (2005) conducted a study on a sample of 2,674 companies from 1985 to 1998. This sample included 146 spin-offs samples, 206 ECOs samples, and 2,322 asset sale samples. Companies with high leverage and low cash income were more inclined towards ECOs and asset sales. When carving out smaller business segments, companies primarily used the asset sale method. In contrast, when carving out larger business segments, they tended to opt for ECOs and spin-offs.

Desai and Jain (1999) argued that asset sales were typically driven by the seller's desire for cash, often due to liquidity constraints or debt repayment. Jensen and Meckling (1976) suggested that asset sales might occur if buyers were willing to pay a premium, possibly because they could better utilize the assets or had excess free cash flow to justify the higher price. Hite et al. (1987) proposed that asset sales enhanced efficiency by reallocating assets to more productive uses, while the seller gained some benefits from this process. According to this perspective, which we call the efficient allocation hypothesis of asset sales, managers retain only assets where they have a comparative advantage. As soon as another party can manage these assets more effectively, they are sold, regardless of the seller's financial condition. However, L. Lang et al. (1995) argued that asset sales were primarily undertaken by the management to provide the cheapest source of funding to achieve managerial objectives, not solely for operating efficiency considerations. This hypothesis suggests that (1) companies selling assets have high leverage and/or poor performance, (2) successful asset sales are positive news, and (3) the stock market discounts the proceeds from the assets retained by the selling

company. To support this hypothesis, they find that typical companies in their sample underperform prior to the sale, and the average stock price response to asset sales is positive only upon announcement of the proceeds. Their evidence aligns with what they refer to as the financing hypothesis, where the management sells assets to obtain funds to achieve their goals when other sources of funds are either too costly or unavailable. Clayton and Reisel (2013) studied the impact of changes in capital structure on the value creation of asset sales. Significant positive returns on equity and debt are concentrated among highly leveraged firms, which use the funds they receive to repay debt. Capital structure adjustment is an important determinant of excess returns generated by asset sales.

Khan and Mehta (1996) argued that companies would voluntarily divest divisions with declining marginal return rates when they suffered from high operating management expenses and/or excessive debt costs. Divisions with low operating risk (low growth and stable income) would be divested through asset sales. Divisions with high operating risk (high growth prospects and greater uncertainty) would be divested through spin-offs.

Nixon et al. (2000) pointed out that the primary factors influencing the choice of divestiture type were financial distress, the number of board directors, whether the CEO served as chairman of the board, and the size of the division to be divested. Cash requirement appears to be the major determinant in this decision. Companies with stronger internal controls (measured by fewer board directors and the separation of CEO and chairman positions) are more likely to spin off rather than sell divisions. The larger the size of the division to be divested, the greater the likelihood of a spin-off.

Prezas and Simonyan (2015) analyzed the determinants of the choice between two forms of corporate asset divestitures (spin-offs and asset sales), using a sample of 378 spin-offs and 4,192 asset sales from 1980 to 2011. Firstly, companies with lower market valuations relative to their intrinsic value are more likely to spin off their assets. Secondly, assets performing poorly relative to their full potential are more likely to be sold. Thirdly, spin-offs are more likely during periods of investor optimism.

Bergh et al. (2008) discussed that when restructured assets were primarily related to and within the core business lines, or when the degree of diversification between a company's business lines was low and relevant, observers found it challenging to assess and comprehend the restructuring. By moving assets into the capital markets and enhancing the efficiency and transparency of the restructured company, spin-offs most effectively and favorably reduce information asymmetry. Conversely, when restructured assets are within secondary and unrelated business lines or the company is highly diversified, selling assets can best mitigate

the asymmetry by reallocating assets to their most productive uses through market forces, simultaneously improving the strategic and performance aspects of the restructured company.

Rosenfeld (1984) studied on the effect of voluntary divestiture announcements on shareholder wealth. The study found that both spin-off announcements and asset sale announcements had a positive effect on the stock prices of the spun-off companies, with spin-off announcements showing superior stock price performance on the announcement day compared to asset sale announcements. However, Prezas and Simonyan (2015) later concluded that companies selling assets exhibited better long-term operating and stock performance after divestitures compared to those spinning off assets.

Guo and Wan (2010) summarized the differences between the parent company's seasoned equity offerings (SEO) and the spin-off listing. In a parent company's SEO, the parent company sells its own shares, which are already publicly traded before the SEO, and dilutes the shareholdings of the parent company's shareholders. While in an spin-offs, the parent company sells the shares of its subsidiary, which cannot be publicly traded before the spin-offs and after the spin-offs, the net asset value per share of the parent company will be reduced.

Schipper and Smith (1986) studied the stock price reactions to announcements of public issuances of wholly owned subsidiary stocks by parent companies. The average abnormal returns associated with ECO announcements sharply contrast with the average abnormal losses recorded for parent company's SEO announcements. For ECO announcements associated with 76 samples, the average shareholder gain is +1.8%. In contrast, announcements of parent company's SEO or convertible bond issuance result in average shareholder losses exceeding 3%. And also Masulis and Korwar (1986) examine a sample of 690 SEOs by industrial firms during the period 1963–80 and measure an average announcement-period excess return of –3.25%.

To explain the difference in stock price reactions mentioned above, Schipper and Smith (1986) summarized four characteristics of ECOs compared to parent company's SEO: separating subsidiary and parent company assets for external equity financing, initiating public trading of subsidiary common stock, restructuring asset management and incentive contracts, and forming minority equity ownership by the public. Through ECOs, the growth opportunities of subsidiaries are separated from the parent company's assets, avoiding the negative impact of managerial private information on the parent company's asset valuation. The public listing of subsidiary stock increases financial reporting requirements and incentivizes the collection of private information, potentially enhancing investors' understanding of subsidiary growth opportunities. Restructuring management responsibilities and revising incentive contracts can

improve asset management efficiency. The generation of minority shareholder interests achieves the benefits without losing the parent company's control over the subsidiary, but it may lead to conflicts of interest between the parent company and minority shareholders.

Guo and Wan (2010) summarized the differences between tracking stocks and spin-offs. Tracking stocks are issued by the parent company, and their value is determined by the performance of specific subsidiaries within the parent company. Legally, during the issuance of tracking stocks, the subsidiary is not separated from the parent company. The shareholders of parent company can benefit from the rapid growth of the subsidiary, and also it is possible to maintain synergy between the subsidiary and the parent company.

In the mentioned research literature, spin-offs, equity carve-outs and asset sales correspond to different types of asset restructuring. In the Chinese context, including corporate practices, policies and regulations, and Chinese journals, spin-off listing covers spin-off, equity carves-out, asset sale and other types. Secondly, the three types of assets reorganization will produce two independent legal entities and go public independently. This thesis focuses on the motivation of the spin-offs and the economic consequences for the subsidiaries. Therefore, the literature and case data cited in this thesis mainly focus on spin-offs listing, but also includes equity carve-outs and asset sales.

2.2 Background and policy evolution of spin-offs of listed companies in China

2.2.1 Main policies for spin-offs

Spin-offs have been practiced for decades in foreign markets, while it has only started to emerge in Chinese market. For Chinese enterprises, there are various models, such as "H-share spun-off in Hong Kong," "A-share spun-off in Hong Kong," "H-share spun-off in A-share in Mainland China," and "A-share spun-off in Mainland China." The institutional framework and practices of spin-offs in China have gone through a relatively long evolutionary process.

In 2004, the China Securities Regulatory Commission (CSRC) issued the *Circular on Issues in relation to Regulating Overseas Listing of Subsidiaries of Domestic Listed Companies*, allowing China A-share listed companies to spin-off their subsidiary companies for overseas listings. In December 2019, the CSRC released the *Several Provisions on the Pilot Program of Listed Companies' spin-offs of Subsidiaries for Domestic Listing*. From then on, the practice of domestic spin-offs, a common practice in mature capital markets, was formally implemented in the A-share market. This filled the regulatory gap in domestic spin-offs in A-share market,

changing the situation where it is difficult for companies to achieve domestic spin-offs. In January 2022, the CSRC issued the *Rules for the spin-offs of Listed Companies (For Trial Implementation)*. The polices issued in 2004 and 2019 were simultaneously repealed.

2.2.2 Scope of spin-offs

For the destination of spin-offs, A-share listed companies have gradually replaced overseas spin-offs with the mode of spin-off their subsidiaries and listing them in A-share market (known as "A-share spun-off in Mainland China"), and it has become the mainstream mode of spin-offs for A-share listed companies. In recent years, emerging favorable factors for A shares have accelerated the pace of the "A-share spun-off in Mainland China" market advancement, including continuous improvement of regulatory rules related to spin-offs, shorter listing cycles and faster approval processes, and high quality assets garnering high market attention and resulting in optimistic valuations.

As referenced in Table 2.1, since the first spin-off stock was born in February 2021, the number of spin-off stocks has reached 28. Among them, 3 from the Main Board, 10 from the GEM, 11 stocks are from the STAR Market (The Science and Technology Innovation Board), 4 from the BSE (Beijing Stock Exchange). Most of subsidiaries involved in spin-offs tend to focus on emerging sectors such as chemicals, bio-medicine, computer technology, semiconductors, and machinery equipment, and new energy with their core businesses often exhibiting a strong emphasis on technological innovation.

Table 2.1 List of domestic listed companies selecting "A-share spun-off in mainland China"

IPO Timing	Carved-out subsidiary	Security code	Parent company	Security code	Board	Industry
February 25, 2021	Shengyi Electronics	688183.SH	Shengyi Technology	600183.SH	STAR Market	Electronics
May 19, 2021	Electric Wind Power	688660.SH	Shanghai Electric	601727.SH	STAR Market	Power equipment
June 22, 2021	CRCHI	688425.SH	CRCC	601186.SH	STAR Market	Machinery
June 25, 2021	BCHT Biotechnology	688276.SH	CCHN	000661.SZ	STAR Market	Pharmaceuticals
August 5, 2021	XTC New Energy	688778.SH	XTC	600549.SH	STAR Market	Basic chemical
September 27, 2021	Kaisheng New Materials	301069.SZ	Huapont Life Sciences	002004.SZ	GEM	Basic chemical
October 20, 2021	REG	688285.SH	CREC	601390.SH	STAR Market	Machinery
October 28, 2021	Chengda Biotechnology	688739.SH	Liaoning Chengda	600739.SH	STAR Market	Pharmaceuticals

IPO Timing	Carved-out subsidiary	Security code	Parent company	Security code	Board	Industry
December 16, 2021	ZJMI Environmental Energy	603071.SH	Wuchan Zhongda	600704.SH	Main	Public utilities
January 17, 2022	DUPT	301158.SZ	Jereh Group	002353.SZ	GEM	Machinery
January 27, 2022	Tongguan Copper Foil	301217.SZ	TNMG	000630.SZ	GEM	Electronics
February 18, 2022	Hualan Bacterin	301207.SZ	Hualan Biological	002007.SZ	GEM	Pharmaceuticals
February 28, 2022	Han's CNC	301200.SZ	Han's Laser	002008.SZ	GEM	Electronics
March 28, 2022	Mega-info Media	301102.SZ	Luenmei Quantum	600167.SH	GEM	Media
May 18, 2022	Beijing CTJ	301153.SZ	GRG Banking	002152.SZ	GEM	Computer
June 6, 2022	Chengchang Technology	001270.SZ	H&T	002402.SZ	Main	National defense
June 17, 2022	Ruitai New Energy Materials	301238.SZ	GTIG	002091.SZ	GEM	Basic chemical
November 21, 2022	Ruijie Networks	301165.SZ	Star-net	002396.SZ	GEM	Communication
December 7, 2022	Chuannig Biotechnology	301301.SZ	Kelun Pharmaceutical	002422.SZ	GEM	Chemical pharmacy
December 8, 2022	NBOSCO	601022.SH	NBP	601018.SH	Main	Shipping port
December 28, 2022	EZVIZ Network	688475.SH	HIKVISION	002415.SZ	STAR Market	Computer
April 13, 2023	DINGS	873593.BJ	Jiangsu Leili	300660.SZ	BSE	Electrical machinery
April 25, 2023	Metastar	833394.BJ	Tayho Advanced Materials	002254.SZ	BSE	Textile
May 11, 2023	Yonyou Technology	688479.SH	Yonyou Network	600588.SH	STAR Market	Software development
June 5, 2023	TMIC	688570.SH	TDTEC	600582.SH	STAR Market	Automation equipment
June 19, 2023	XIHARI	688334.SH	CHINA XD	601179.SH	STAR Market	Professional services
July 12, 2023	Tianli Clad	873576.BJ	Western Materials	002149.SZ	BSE	Nonferrous metal
August 18, 2023	Hongyu Packaging	837174.BJ	Angel Yeast	600298.SH	BSE	Plastic products

In the real estate industry, since 2014, property management companies have been spun-off and listed independently. The number started to increase gradually in 2018, reaching 7 in 2019 and 10 in 2020 (refer to Table 2.2). Among the choices for restructuring methods, ECOs are the most common, totaling 16 companies, followed by spin-off listings with a total of eight

companies, while asset sales are the least preferred method, with only two companies.

Table 2.2 Quantity of spin-off property service subsidiaries of real estate companies

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Qty.	1	1	0	0	3	7	10	3	1	26

Even though China issued regulations for spin-offs within the country in 2019, the preferred destination for real estate companies to carve out their property subsidiaries is still Hong Kong (HK). In 2019, seven companies went public in Hong Kong, and in 2020, this number increased to 10 (refer to Table 2.3).

Table 2.3 List of spin-off property services subsidiaries of real estate companies

IPO Timing	Property services subsidiary	Security code	Real estate parent company	Security code	Restructuring method	Parent company's equity
June 30, 2014	Colour Life	1778.HK	Fantasia Holdings	1777.HK	ECO	66.96%
October 23, 2015	China Overseas Property	2669.HK	COHL	0688.HK	Spin-off	/
February 9, 2018	A-Living Services	3319.HK	Agile Group	3383.HK	ECO	53.46%
June 19, 2018	Country Garden Services	6098.HK	Country Garden	2007.HK	Spin-off	/
December 6, 2018	KAISA PROSER	2168.HK	KAISA GROUP	1638.HK	ECO	67.18%
March 15, 2019	Binjiang Services	3316.HK	Binjiang Group	2244.SZ	Asset sale	/
March 18, 2019	Aoyuan Health	3662.HK	China Aoyuan	3883.HK	ECO	56.60%
November 6, 2019	Yincheng Life Service	1922.HK	Yincheng International Holding	1902.HK	Spin-off	/
December 16, 2019	CMPO	1914.SZ	China Merchants Shekou	1979.SZ	Asset sale	51.16%
December 19, 2019	Poly Property	6049.HK	PDH	600048.SH	ECO	75%
December 19, 2019	Times Neighborhood	9928.HK	TIMES CHINA	1233.HK	Spin-off	/
December 30, 2019	POWERLONG CM	9909.HK	Powerlong Real Estate	1238.HK	ECO	67.5%
July 10, 2020	Zhenro Services	6958.HK	Zhenro Properties	6158.HK	Spin-off	/
October 30, 2020	Shimao Services	0873.HK	Shimao Group Holdings	0813.HK	ECO	66.50%
October 30, 2020	KWG LIVING	3913.HK	KWG Group	1813.HK	Spin-off	/
November 17, 2020	Jinke Service	9666.HK	Jinke Shares	000656.SZ	ECO	53.97%

IPO Timing	Property services subsidiary	Security code	Real estate parent company	Security code	Restructuring method	Parent company's equity
November 19, 2020	Sunac Services	1516.HK	Sunac China	1918.HK	ECO	72%
December 2, 2020	Evergrande Property	6666.HK	China Evergrande	3333.HK	ECO	59.04%
December 9, 2020	CR Mixc Lifestyle	1209.HK	CR Land	1109.HK	ECO	75.00%
December 9, 2020	Jiayuan Services	1153.HK	Jiayuan International Group	2768.HK	ECO	75.00%
December 17, 2020	Sino-Ocean Service	6677.HK	Sino-Ocean Group	3377.HK	ECO	67.57%
December 31, 2020	C&D Property	2156.HK	C&D International Group	1908.HK	Spin-off	/
January 15, 2021	Roiserv Lifestyle	2146.HK	RiseSun Development	002146.SZ	ECO	62.64%
June 28, 2021	Yuexiu Services	6626.HK	Yuexiu Property	0123.HK	ECO	68.89%
July 8, 2021	Landsea Green Life	1965.HK	Landsea Green Management	0106.HK	Spin-off	/
September 29, 2022	Onewo	2602.HK	Vanke	000002.SZ	ECO	56.60%

2.2.3 The selection of spin-off mode by enterprises

For the mode of spin-offs, according to the regulatory policies and the actual situation of enterprises, the Chinese companies can choose "H-share spun-off in Hong Kong," "A-share spun-off in Hong Kong," "H-share spun-off in A-share," and "A-share spun-off in Mainland China."

In the process of promoting "A-share spun-off in Mainland China", the independence of subsidiaries is a focal point for regulatory authorities. It is necessary to address issues related to the independence of assets and operations, related transactions with the parent company, and competition within the same industry. Due to the characteristics of the real estate industry, the property services sector heavily relies on related transactions with the parent company during its development. For instance, in 2017, 89% of revenue from property management services at Country Garden Services came from its parent company, Country Garden Group and in 2018, 80% of its revenue still originated from the parent company.

Property management companies are more inclined to choose Hong Kong stocks market rather than China domestic A-shares stock market for listing, that is, the mode of "H-share spun-off in Hong Kong," "A-share spun-off in Hong Kong." First, China's domestic A-share market has relatively strict requirements on the profitability of IPO companies. Secondly, the

requirement for the proportion of related party transactions is an obstacle that property management subsidiaries cannot bypass. Finally, due to the regulation policies on real estate, China Securities Regulatory Commission (CSRC) takes a prudent attitude towards the IPO of real estate groups spin-off their property management subsidiaries.

2.3 The main motivation for enterprises spin-offs

When the growth of new business is realized but the value of the enterprise is undervalued, the spin-off is used to improve information disclosure, fully show the potential value of the enterprise to investors, and obtain financial support for the development of new business.

2.3.1 Expansion of financing channels

Krishnaswami and Subramaniam (1999) believed that companies with high growth opportunities and those requiring external capital were more likely to opt for spin-offs. Companies that need capital in order to achieve performance growth but whose value is seriously undervalued first eliminate information asymmetry and obtain fair market value by means of spin-off listing, and then raise funds through the capital market. According to Allen and Mcconnell (1998), most executives aspired to develop their companies into “corporate empires”, leading to the urge for corporate expansion. ECOs essentially send a strong signal that the parent company lacks the necessary funds for operational development, thus making financing the primary motivation for ECOs. From the perspective of subsidiaries, going public independently helps reduce their reliance on the parent company for funding, creating an independent financing platform with the ability to obtain direct financing. L. Lang et al. (1995) argued that the main purpose for a parent company to carve out a subsidiary is to meet financing needs. Unlike asset sales, ECOs face the entire capital market rather than a single buyer, allowing access to more funds. Otsubo (2013) studied how ECOs increase the wealth of parent company shareholders. The stock market responds positively to parent companies’ ECOs, especially when their leverage is high. It is evident that parent companies use the funds obtained from ECOs to reduce leverage, which continues after the ECOs. The stock market may view the ECO as a trigger for reducing the parent company’s leverage.

Meanwhile, from the perspective of subsidiaries, independent listing helps to reduce their financial dependence on the parent company and build an independent financing platform, so as to have the ability of direct financing. Even if some companies do not issue new shares for financing when they are listed, the management will conduct equity financing in the future

according to the market timing. Zhao (2020) researched the financing effects of spin-offs. The risk of investors is highly correlated with the degree of information asymmetry of the enterprises. When the degree of enterprise information asymmetry is higher, the investor risk is greater, and it is more difficult for the enterprise to obtain financing. In the process of financing, the transaction cost is too high or even higher than the investment return, which will also greatly restrict the financing of enterprises. When the financing capacity of the parent company is constrained and cannot meet the business needs, the spin-offs become a new financing channel.

Information asymmetry

From a financing and valuation perspective, Nanda (1991) developed an equilibria. The undervalued companies tend to obtain the necessary funds through divestiture, while overvalued companies tend to use parent company's equity financing.

As per the empirical analysis conducted on data from 118 spin-off firms and their industry and size-matched control groups from 1979 to 1993, Krishnaswami and Subramaniam (1999) found that spinning off a company's segment into separate trading units could enhance value as it alleviates information asymmetry between different segments concerning cash flows, profitability, operating efficiency, and prospects. The level of ex-ante information asymmetry in the spin-off firms is significantly higher than that in the control group, which is reflected by higher analyst earnings forecast error, forecast dispersion, standardized forecast error and abnormal return volatility of earnings announcement. After the spin-off, these information asymmetry indicators decrease significantly, which verifies that the spin-off can effectively alleviate the information asymmetry problem.

Therefore, companies undervalued due to information asymmetry benefit from a divestiture through a spin-off, resulting in an improved market valuation. After spin-off listing, investors can more clearly perceive value, and as independent entities, a decline in the performance of one entity will not spill over and adversely affect another entity.

Companies engaging in spin-offs tend to have higher levels of information asymmetry compared to firms matched by industry and size. Information issues significantly diminish after spin-offs. The benefits of spin-offs are positively correlated with the degree of information asymmetry, particularly noticeable in companies with fewer negative synergy effects between divisions.

Under an uncertain environment, according to Perotti and Rossetto (2007), the ECO, as a real options strategy for companies, can help them gather substantial information from the public market about the subsidiary's value as an independent entity. This facilitates decision-

making for the parent company, whether to maintain control or exit the subsidiary.

Habib (1997) provided an information-based explanation for spin-offs. When a company's various segments are spun off into several independently listed companies, the number of traded securities increases. This makes the pricing system more informative, which enhances the quality of managers' investment decisions as well as reduces the uncertainty of uninformed investors about the value of segments. Both effects contribute to increasing the total market value of the carved-out segments, making it higher than the market value of the original company.

Fu (2002) used the sample data of 94 NYSE listed companies from 1993 to 2001 to measure the degree of information asymmetry by designing a PIN (the probability of information-based trading) value. Before the equity carve-out, the PIN value of the parent company will be higher than that of similar companies; After the equity carve-out, the average PIN value of sample companies decreases from 0.17 to 0.15 (a significant decrease), while there is no significant change in the control group, which proves that the equity carve-out can improve the information transparency of stock prices and reduce the degree of information asymmetry.

Li et al. (2012) studied the market reaction of different locations of the spin-offs. When investors are more familiar with the spin-off listed companies, the degree of information asymmetry is weaker, and the spin-off subsidiaries can obtain higher market valuation.

Myers and Majluf (1984) found that companies that need to raise cash by issuing common stock must take on valuable investment opportunities. Investors rationally interpret a company's actions and believe the management team know more about the value of the company than potential investors. Myers and Majluf (1984) proposed a model of stock issuance and investment decisions under the assumption that company managers possess superior information, and the key features are as follows. Safe securities are generally preferred over risky ones. Companies should seek external capital in the bond market. Using debt for external financing is better than equity financing. Companies whose investment opportunities exceed their operating cash flows, and that have exhausted their ability to issue low-risk bonds, may forego good investments rather than issue risky securities to finance. This aligns with the interests of existing shareholders. However, when a company has sufficient financial flexibility to forego promising investment opportunities, shareholders' profits will be better. When managers have superior information and issue stocks for investment financing, stock prices fall under otherwise identical conditions. However, this action aligns with the interests of (existing) shareholders. If a company issues safe (default-free) bonds for investment financing, stock prices do not fall.

Liu et al. (2012) found that after the spin-off listing on the GEM, there was an improvement in the level of information disclosure, lowering agency costs. Accounting departments initially record these high-growth assets based on their actual cost rather than their fair value, making it challenging to reflect changes of assets value in the financial statements. Specific information about individual assets' growth characteristics and future cash flows is rarely disclosed before listing. As a result, the capital market struggles to fulfill its role in discovering the value of these growth assets. As the detailed information about the assets must be disclosed during the spin-off listing process, it provides an opportunity for the revaluation of growth-oriented business assets.

Nevertheless, information asymmetry cannot be eliminated after the spin-off. Allen (2001) examined the presence and value of private information and incentives by tracking the stock transactions of insiders, external directors, and major shareholders following the spin-off. In the period following the spin-off, insiders were substantial net purchasers of the stocks of listed subsidiaries, and the transactions of insiders and external directors of the spinning-off companies resulted in significant average excess stock returns. One interpretation of this result is that despite the disclosure requirements regarding the division's operating and financial performance, information asymmetry persists after the spin-off. Spin-offs change the company's information environment. An increase in transparency, may diminish the informational advantage of informed traders or, conversely, increase the value of private information. After the spin-off, the variance of residual income has increased, and both transaction costs and transaction prices have increased significantly (Huson & Mackinnon, 2003). Chai et al. (2017) used 87 spin-off announcements in the Australian Stock Exchange (ASX) from 1999 to 2013 as samples to study the announcement effect of spin-off listing, and the three-day announcement effect was significantly positive. However, the driving mechanism is different from that in Europe and the United States, and factors such as "Information asymmetry alleviation" in the traditional theory have no significant impact on the cumulative abnormal return (CAR), which is not supported in the Australian market.

Market valuation incentive

The market valuation incentive is based on the information asymmetry theory, suggesting that spin-offs convey positive information about a company's value to investors. Nanda (1991) argued that there's an information asymmetry between corporate executives and investors and executives' assessment and evaluation of a company's value are more accurate. When they believe the company is undervalued, they choose to carve it out. Slovin et al. (1995) examined the impact of spin-offs, ECOs, and asset sales on company valuations and found that when

external investors price new shares higher than the manager's perceived value, managers engage in equity carve-outs. Powers (2003) stated that if the subsidiary's market value exceeded that of similar companies in the industry, that was, the market value after the equity carve-out was greater than its intrinsic value, the parent company would be inclined to prefer an equity carve-out.

J. Deng et al. (2020) believed that compared to Country Garden Services, Country Garden's real estate business was more diversified, with a larger asset base, and a more complex equity structure. Due to the presence of information asymmetry, the consolidated financial statements of the parent company could not accurately reflect the actual value of the property business. A spin-off could provide an opportunity for the "growth business" to be revalued.

Market signals

Nanda (1991) proposed the market signaling hypothesis, suggesting that an ECO could be viewed as a signal from the management to the market that the assets were undervalued. Choosing to ECOs allows these undervalued assets to have an opportunity to be revalued correctly by the market. Nanda (1991) extended the theories of Myers and Majluf (1984), suggesting that managers were aware of the misevaluation of the company's assets, which external investors were not. This model helps explain the positive announcement effect observed in the market after ECOs are announced.

There is substantial evidence that, from the market's perspective, announcements of seasoned equity offerings (SEO) by the parent company are perceived as unfavorable news for the company's stock price. Masulis and Korwar (1986) demonstrated that stock issuance announcements by U.S. industrial companies led to negative abnormal return. Furthermore, Dann and Mikkelson (1984) pointed out that even the sale of convertible bonds yielded significant negative average abnormal returns. The reason is that the parent company's seasoned equity offerings (SEO) conveys the signal that the assets are overvalued, which leads to the decline of the stock price (Nanda, 1991).

Market timing

The market timing hypothesis suggests that the primary reason for a spin-off is that the parent company can sell its premium-priced equity in the market. Companies tend to issue shares when their Market value (measured as M/B, the market-to-book Ratio) is high and buy back shares when their market value is low. Baker and Wurgler (2002) corroborated this idea in their research. The studies by Pagano et al. (1998) further found that the driving force behind spin-offs appears to be a desire to maximize profits by selling the subsidiary's stock, especially when sensitive to "windows of opportunity." Spin-offs are primarily driven from a market

timing perspective. If the market value of the subsidiary exceeds that of similar companies in the industry, meaning the market value after the spin-off is greater than its intrinsic value, the parent company tends to favor a spin-off listing.

Meanwhile, taking Chinese spin-offs from 2008 to 2022 as samples, Yan and Lu (2025) studied the impact of equity carve-outs on IPO pricing efficiency. Due to performance whitewashing or tunneling, in order to avoid the failure of the offering, the management will adopt a lower offering price. Equity carve-outs significantly reduce IPO pricing efficiency and thus the funds amount raised.

2.3.2 Optimization of corporate governance

Resulting from corporate diversification, one theoretical explanation for the value created by spin-offs is that it reduces agency costs. By going public through spin-offs, inefficient internal capital markets can be dismantled, corporate governance structures improved, and the efficiency of management team contracts enhanced, thereby reducing agency costs.

Internal capital markets

Subsidiaries, which are part of the parent company prior to the spin-off, form an internal capital market within the parent company. The headquarters can reallocate cash flows among segments, where the parent company holds residual rights of control over its subsidiaries (Stein, 1997; Williamson, 1975). A single company, lacking the regulation of internal capital markets, must seek financing through external capital markets.

Due to issues like information asymmetry, companies must bear higher transaction costs. In contrast, diversified companies, utilizing internal capital markets for financing and investment, have advantages in terms of information and incentives, enabling them to allocate economic resources more efficiently. Williamson (1975) summarized the advantages of internal capital markets. By means of authority and hierarchy, the headquarters may directly review each subsidiary and supervise investment projects. Internal capital markets not only save search costs for information and reduce transaction costs for financing, but they can also swiftly adapt to changes in the market environment, thus benefiting the optimization of capital allocation within the company. In terms of fund aggregation and capital allocation, Internal capital markets play a key role.

In terms of fund aggregation, Lewellen (1971) argued that diversified companies can integrate incompletely related cash flows from their internal capital markets and reduce the volatility of the company's internal cash flows, which increases the overall financial synergy and enhances the company's debt financing capacity. Myers and Majluf (1984) argued that due

to the information asymmetry, when there are positive Net Present Value (NPV) investment opportunities but credit constraints appear in the external capital markets, the company constructs an internal capital market to meet the funding needs. Stein (1997) pointed out that internal capital markets alleviate the credit constraints faced by companies, allowing them to access more external financing to meet the funding needs. Therefore, internal capital markets serve a "more -money effect" function.

In terms of capital allocation, Gertner et al. (1994) argued that the headquarters held residual rights of control on cash flow, which motivated the headquarters to allocate funds effectively. Stein (1997) compared internal capital markets with bank financing. He believed that the headquarters, through competition among various units, ranked investment opportunities within the company based on their returns and allocated limited capital to units with the highest marginal return rate, resulting in (winner-picking) and internal capital markets also served a "smarter - money effect" function. Matsusaka and Nanda (2002) explicitly analyzed the monitoring and winner-picking functions of the headquarters' control rights based on internal capital markets.

In terms of incentive constraints, Harris and Raviv (1996) studied and assumed that, with the coexistence of information asymmetry and incentive problems, division managers would tend to seek larger funding allocations as resources can partially substitute for managerial efforts, during the capital budgeting processes. Gertner et al. (1994) believed that, since the headquarters usually had residual rights of control over corporate assets, they would provide stronger incentives for monitoring departmental investments by top executives in the group. This was achieved through performance evaluations, internal audits, and various mechanisms, contributing to enhanced investment efficiency.

Despite these advantages, internal capital markets can also damage company value in various aspects. Early successes in diversification were more likely to make managers ambitious and excessively proud, leading to incorrect resource allocation decisions. Increased diversification increases decision complexity and, in terms of the decision-making ability of the headquarters, results in decision-making errors in the process of "winner-picking." As a company's diversification level increases, the advantages of internal capital markets in terms of information, supervision, and incentives gradually diminish and may lead to multiple issues (F. Wang & Zhou, 2009).

The "more-money effect" of internal capital markets (Stein, 1997) allows companies to access more external funds, and the complementary cash flows of various internal segments may result in larger cash flows, inspiring management to make higher investments and

potentially misuse free cash flows. Stein (2001) found that when there are sufficient cash flow available for internal discretion, it easily induces the overinvestment behavior of the management team.

The large scale of an organization reduces the efficiency of information transfer within the company. Moreover, the multi-tiered structure makes the agency structure more complex, and increases agency costs. The proliferation of subsidiaries intensifies resource competition, leading to a distorted resource allocation. Scharfstein and Stein (2000) argued that the distortion in internal capital allocation resulted from department managers' agency problems and rent-seeking behavior. Rajan et al. (2000), Scharfstein and Stein (2000) and Wulf (2009) identified agency conflicts between the CEO and department manager as the main cause of ineffective internal capital allocation. Shin and Stulz (1998) argued that due to information asymmetry and agency problems within diversified companies, companies may engage in "equalitarianism" or "cross-subsidy" within the company. Rajan et al. (2000) argued that the phenomenon of cross-subsidiary could harm the overall company value. The parent company has strong control over its subsidiaries and decision-making power, which may inhibit the independence and innovation ability of subsidiaries (Y. F. Wang & Wang, 2025).

Even when resources are efficiently allocated, diversification erodes firm value. When managers derive personal utility from the scale of resources they control, reallocation of funds across sectors may weaken their managerial incentives. The decline of management's ex-ante motivation may exceed the corporate value gain brought by efficient resource reallocation afterwards (Brusco & Panunzi, 2005).

Restructuring including spin-offs and equity carve-out is often undertaken to improve capital allocation efficiency. After spin-offs, the inefficient internal capital market is dismantled, and investment efficiency significantly improves. Gertner et al. (2002) demonstrated that, after spin-offs, investments were more sensitive to the measurement indicators of investment opportunities (such as Tobin's Q) compared to pre-spin-off companies. This results in a decrease in investments in industries with low Tobin's Q values and an increase in investments in industries with high Tobin's Q values. Ahn and Denis (2004) also found during their research that post-spun-off companies significantly increased investments in markets with high Tobin's Q. Furthermore, spin-offs reduce the investment diversity that exists within multi-segment companies, leading to an increase in overall revenue for the parent company and the spun-off segments (Burch & Nanda, 2003). M. Chen et al. (2023) found that after the spin-off and listing, maintaining the independence of business, personnel and finance can have a positive impact on business performance. Maintaining business independence can focus on core business and help

enhance core competitiveness. To enhance personnel independence, equity incentives can be implemented and corporate governance structure can be optimized. The diversified investors makes the decision-making process of subsidiaries more democratized (Y. F. Wang & Wang, 2025). Vitkova et al. (2023) took 354 equity carve-outs in the United States from 1980 to 2013 as samples and found that allocation efficiency of the parent company was significantly improved after the completion of the transaction. This increase in allocative efficiency is driven by the improvement of the external and internal governance characteristics of the parent company.

Oliveira et al. (2023) showed that the fact that the spin-off subsidiary becomes an independently operated company has not been verified. The parent company still transfers all kinds of resources, knowledge, manpower and finance to the spin-off subsidiary. Semadeni and Cannella (2011) took 142 companies that were spun off during the period from 1986 to 1997 as the research sample. Although the spun-off subsidiaries can benefit from certain links of the parent company, if the connection is too close, it will have a negative correlation with performance. There is a balance point between excessive and insufficient participation of the parent company in the subsidiary.

Management incentives

Managerial compensation plays an important role in determining the efficiency of internal capital market allocation, and equity incentive can effectively improve the inefficiency of internal capital allocation decisions (Datta et al., 2009). Agency theory has a rich interdisciplinary tradition in accounting, economics, finance, and organizational behavior (Eisenhardt, 1989). From the perspective of overall agency theory, spin-off events alter the ownership and incentive and supervision mechanisms of subsidiaries. In the company organization structure, there is a double agency, involving external investors and the company's group management, as well as the group management and division managers. Therefore, the management incentives in the spin-off listing include two levels: the management of the parent company and the management of the subsidiary company.

Jensen (1986) highlighted the conflicts between managers and shareholders concerning the optimal firm size. These conflicts are particularly severe in companies with substantial free cash flows more than profitable investment opportunities. Managers have an incentive to grow their companies beyond the optimal size. However, overall costs of diversification outweigh the benefits. Philip and Berger (1995), L. H. P. Lang and Stulz (1994) and Servaes (1996) documented significant value losses related to corporate diversification strategies.

If diversification is associated with reduced company value, why do companies adopt

diversified strategies? Managers derive private benefits from diversification that exceed their private costs. Diversification may benefit managers because running larger companies can provide them with power and prestige (Jensen, 1986), executive compensation is linked to company size, diversification reduces the risk of managers' personal investment portfolios (Amihud & Lev, 1981), or because diversification helps make managers indispensable to their companies (Morck et al., 1988). Therefore, managers may maintain diversified strategies even if doing so reduces shareholder value.

Denis et al. (1997) conducted research and found that the level of diversification was negatively correlated with managerial ownership and external large shareholder ownership. The reduction of the level of diversification is related to external corporate control threats, financial difficulties, and managerial turnover. Agency issues are the reason for companies to maintain a diversification strategy that reduces value. Managers only reduce the level of diversification under the pressure of internal or external monitoring mechanisms. The spinoff decision is associated with more effective corporate governance characteristics, such as more ownership by outside board members, stronger board heterogeneity, and fewer board members (Ahn & Walker, 2007). Chemmanur and Yan (2004) proposed a new theoretical basis for spin-offs from the perspective of corporate control. If control is transferred to a more capable outside competitor, all shareholders will benefit, but incumbent management will give up the private benefits associated with control. A spin-off raises the probability of such a transfer of control. This increase in risk, in turn, creates incentives for incumbent management to improve management efforts to retain control. Krishnaswami and Subramaniam (1999) argued that the main idea of the agency theory was the misalignment of incentives, leading to different risk preferences between principals (owners) and agents (managers). This theory suggests that aligning incentives and reducing information asymmetry can reduce agency problems and enhance performance. If there is higher information asymmetry between managers and investors, spin-offs are more likely to occur, and they further argue that spin-off events reduce this asymmetry. Measuring information asymmetry as the difference between analyst forecasts and actual earnings, the accuracy of valuations significantly improved after spin-off events. This indicates a reduction in the level of information asymmetry in the principal-agent relationship between the parent company and subsidiary after the spin-off.

Based on research by Aron (1991), Meyer et al. (1992) and Bengt and Jean (1993), spin-offs are a result of internal incentive issues. The parent company employ spin-offs as a tool to enhance the incentive levels of department managers. Running a product line as a segment within a corporate group or as an independent company leads to a fundamental difference. The

stock value of the latter reflects the market valuation of that unit's business, while the stock value of the former reflects the asset value of all the parent company's other businesses. Therefore, when a segment or product line operates as part of a corporate group, the overall stock value of the company may not adequately reflect the productivity of individual unit or product line managers, as their value contribution is assessed based on accounting profits. This makes managers' interests conflict with shareholder value and presents an incentive challenge. From an incentive perspective, it is crucial to link managers' compensation to the overall market value of the company rather than using accounting profits to measure it. If a manager's value contribution is measured based on accounting profits, the manager tends to reduce capital investments to boost short-term profits. However, this can lead to a decrease in the company's long-term cash inflows, consequently lowering the company's market valuation, ultimately harming shareholder interests.

Bengt and Jean (1993) demonstrated that by listing the subsidiary independently, the subsidiary became a separate legal entity, enabling the implementation of various incentive measures such as stock options after the subsidiary's shares are publicly traded. Aron (1991) proposed the spin-offs management incentive theory. When a parent company spins its subsidiary off as an independent entity, it facilitates the implementation of equity incentive programs for the subsidiary's management. This ties the earnings of the management to the stock value of the independent company. Law and Yu (2018) studied the impact of spin-offs on executive compensation. There is no significant relationship between executive compensation and stock returns before the spinoff, but there is a significant positive relationship between executive compensation and stock returns after the spinoff.

Mcconnell and Servaes (1990) believed that ECOs may improve management incentive arrangements. Since the subsidiary becomes a publicly traded company, its board can create market-based performance or contractual incentives for managers. After the ECO, managers can own shares in their specific company rather than in a multi-divisional parent company where the parent company's performance may not accurately reflect their division's performance.

Wulf (2002) proposed that in designing compensation contracts, department managers' compensation could be linked to the overall company performance, thereby reducing rent-seeking activities. Datta et al. (2009) found that equity incentives played a crucial role in CEO incentives, contributing to improved efficiency in internal capital market allocation. Hite and Owers (1983) argued that increased contract efficiency could be a potential explanation for abnormal returns associated with spin-off announcements. Schipper and Smith (1983)

suggested that the value created by spin-offs stemmed from the elimination of inefficient decision management and control. Aron (1991) provided a theoretical model to demonstrate that spin-offs facilitated the development and implementation of performance-based compensation contracts. Holmstrom (1979) contended that designing optimal compensation contracts could mitigate moral hazard risks. Allen (2001) discovered that senior managers of subsidiaries often invested significantly in the post-spin-off subsidiary, and this investment was significantly related to the positive abnormal returns generated by spin-off events. Spin-offs not only reduce information asymmetry between managers and investors (considering such investments lead to more detailed and granular information disclosures) but also increase the consistency of incentives by enhancing senior managers' ownership.

Feng et al. (2015) found that while low-incentive companies exhibited stronger announcement effects, high-incentive companies performed better in the long-term with respect to their stock prices after spin-offs.

2.3.3 Implementation of focus-increasing

Comparison between diversification and specialization. Diversification and specialization are two ways of allocating corporate resources. Diversification has both value-enhancing and value-reducing effects.

Diversified companies have several advantages. By creating a level of management associated with coordination among specialized divisions, diversified companies were more efficient and thus more profitable than when business lines were separated. Weston (1970) argued that diversified companies allocated resources more effectively because they created a larger internal capital market. Stulz (1990) held that diversified companies, by creating a larger internal capital market, reduced the problem of underinvestment. Lewellen (1971) proposed that diversified companies can merge businesses with partially unrelated cash flows, creating a joint insurance effect that gave diversified companies greater debt capacity than single-line companies of equal size.

However, as the level of corporate diversification increases, the advantages of information, supervision, and incentives gradually diminish, leading to various drawbacks. Philip and Berger (1995) estimated the impact of diversification on company value by estimating the independent value of individual business divisions. Comparing the sum of these independent values with the actual company value reveals that the average value loss caused by diversification during the period 1986 - 1991ranged from 13% to 15%. L. Lang et al. (1995) found that Tobin's Q value was negatively correlated with the degree of corporate diversification. F. Wang and Zhou (2009)

found that in the early stages of diversification, the efficiency of internal capital markets tends to improve. Beyond a certain level of diversification, the efficiency of internal capital markets decreases.

The company's focus-increasing strategy suggests that the parent company may, from a strategic perspective, decide to spin-off a business segment that it will generate greater value. Comment and Jarrell (1995) confirmed the irrationality of economies of scope in the 1980s: the trend toward concentration or specialization, the positive correlation between stock returns and increased business concentration. Large firms with concentrated operations are less vulnerable to hostile takeovers.

Hite and Owers (1983), Schipper and Smith (1983), Daley et al. (1997) and Desai and Jain (1999) argued that the earnings generated from the spin-off may arise from the improvement in the parent company's focus-increasing and the elimination of negative synergies between parent companies and subsidiaries. Hite and Owers (1983) classified the motives for spin-offs as mainly due to the improvement of operational efficiency such as specialization and contract optimization, rather than the plunder of creditors' wealth. The samples motivated by focus-increasing exhibits the largest abnormal return from 50 days prior to the announcement to the spin-off completion date. Schipper and Smith (1983) found that the spin-off announcement would trigger a significantly positive reaction of stock price, and shareholders' benefits may come from the improvement of management efficiency. In the first five years of the spin-off, the sales scale, fixed assets and the number of employees of the sample companies increased by 20%, 30% and 19% annually respectively, and the expansion led to dis-economies of scale in management. The 72 spin-off subsidiaries are different from the parent industry, and the business diversity is reduced after the spin-off. Spin-offs reduce enterprise scale and business complexity, alleviate disharmony in management scale, and improve resource allocation efficiency.

Daley et al. (1997) found that significant value increases for cross-industry spin-offs, whereas there were no significant changes in value for same-industry spin-offs. The hypothesis was verified that eliminating unrelated business activities and focusing on core business is beneficial for the company's value. The spin-off of cross-industry companies achieves value growth by optimizing resource allocation and improving core business efficiency, revealing that operational performance improvement is the main source of value creation. Vijh (2002) studied 336 spin-off cases from 1980 to 1997, in which the parent subsidiary industry was unrelated after spin-off, the excess return was significantly higher (2.34% vs. 0.80%), and 43% of spin-off was accompanied by complete spin-off (such as spin-off listing or acquisition),

which confirmed the value creation effect of business concentration.

Vijh (1999) selected 628 spin-off samples from 1981 to 1995 and found that the performance of subsidiaries within three years after their spin-off was not lower than the corresponding benchmark earnings. The superior performance of the subsidiary stock is since the subsidiary and the parent can focus on fewer business segments after the spin-off and the fact that the parent continues to have a supervisory position in the subsidiary. Li et al. (2012) generally argued that spin-offs could enable parent companies to focus on the operations of their core businesses and allow investors to understand the value of subsidiaries. However, if subsidiaries want to be successful, it must have competitive business and an excellent asset structure. Zhao (2020) concluded that after the spin-offs, asset restructuring and capital operations can be flexibly carried out between the parent company and subsidiary, leveraging synergy in the value chain, realizing capital appreciation, and promoting the corporate operating efficiency.

Allen et al. (1995) provided indirect evidence for focus-increasing improvement motivation by investigating whether abnormal returns from spin-offs were correcting previously erroneous results. When the spin-off was preceded by an acquisition of the division, the positive abnormal returns before and after the spin-off represented the re-creation of the value destroyed in the early acquisition.

Desai and Jain (1999) analyzed the economic consequences of focus-increasing spin-off from the two dimensions of long-term stock returns and operating performance and reached consistent conclusions.

Veld and Veld-Merkoulova (2004) studied a sample of 156 spin-offs announced between January 1987 and September 2000 from 15 different European countries. The cumulative average abnormal rate of return of companies with industrial concentration is 3.57%, while the cumulative average abnormal rate of return of companies without industrial concentration is only 0.76%. Comment and Jarrell (1995) conducted research on publicly traded U.S. companies and found that, during 1978-1989, the shareholders' wealth also saw a substantial rise with the focus-increasing of the listed companies. There is a positive correlation between the focus-increasing level in listed companies and their overall value. Chai et al. (2017) used 87 spin-off announcements in the Australian Stock Exchange (ASX) from 1999 to 2013 as samples to study the announcement effect of spin-off listing, and the three-day announcement effect was significantly positive. For the spin-off listing of focus-increasing, the excess return within 12 months was significant, reaching 25.42%.

In summary, spin-offs reduce the degree of information asymmetry in enterprise value and

provide an opportunity for the revaluation of growth assets. This, in turn, helps alleviate financing constraints to some extent, providing the necessary funds for the development of both the parent and subsidiary. Additionally, spin-offs are conducive to the integration of its own business segments, enabling the implementation of focus-increasing strategies, which lead to specialized operations for both the parent and subsidiary, thereby improving operating efficiency and business profitability. The implementation of focus-increasing strategies dismantles inefficient internal capital markets and, through more effective equity incentive schemes, enhances the motivation of the management team while reducing agency costs. Consequently, after a spin-off, the value of the corporate group can be significantly increased.

2.4 The economic consequences of enterprises spin-offs

The economic consequences of spin-offs can be divided into capital market indicators and corporate operating performance. Capital market indicators include cumulative average abnormal returns and long-term return rate, while corporate operating performance is measured by return on assets (ROA) and financial indicators related to solvency, operating capacity, profitability and growth.

2.4.1 The impact of spin-off on enterprises performance in the capital market

Cumulative average abnormal returns

Guo and Wan (2010) summarized existing research, focusing on the short-term performance of both the parent company and subsidiary after spin-offs. It can be confirmed from the research results that spin-offs result in short-term excess returns for both the parent company and subsidiary.

Hite and Owers (1983) studied the stock price reactions of 116 companies that announced 123 voluntary spin-offs between 1963 and 1981. The median shareholder return from the original equity value was 6.6%, and the abnormal return rate was 7% from 50 days before the announcement until the completion of the spin-off. Schipper and Smith (1983) investigated the impact of voluntary spin-off announcements on shareholder wealth. Between1963 and 1981, 93 voluntary spin-off announcements showed significant positive stock price reactions and the two-day cumulative average abnormal return reached 2.84%. Prezas et al. (2000) studied the stock pricing of 251 Equity Carve-Outs from 1986 to 1995 and confirmed the existence of short-term excess returns. The average return on ECO is 5.83% on the first day and 5.43% after one week.

Miles and Rosenfeld (1983) studied samples of 55 NYSE/AMEX listed companies from 1963 to 1980. The spin-off announcement has a significant positive impact on the stock price, with the highest abnormal returns on the announcement Day (Day 0) and the next day (Day +1) (AAR = 0.82% and 2.52%, respectively). During the observation period (-120 days to +60 days), the CAAR is 22.1%. And also larger spin-offs tend to have a greater relative increase in stock prices than smaller spin-offs. Veld and Veld-Merkoulova (2009) summarized the results of 26 event studies related to spin-off announcements. The average abnormal returns during the event window period were significantly positive, amounting to 3.02%. Larger spin-offs, divestitures with favorable tax or regulatory policies, and spin-offs that enhance focus-increasing tend to yield a higher return rate.

Daley et al. (1997) found that cross-industry spin-offs generated significant excess returns (mean 4.3%, median 3.0%) during the announcement period (two days before and after the announcement), which was statistically significant. The excess return of the same industry division (mean 1.4%, median − 0.1%) is not significant. Lv et al. (2023) analyzed the spin-off's short-term stock price effects of listed companies and conducted regression analysis on excess returns. Empirical results showed that spin-off announcements generated significant positive abnormal returns around the event day. Spin-offs between the parent company and subsidiary in different industries resulted in higher abnormal returns. More disclosure from the parent company in the spin-off led to better performance in abnormal returns. Stronger profitability of the subsidiary also led to higher abnormal returns.

Veld and Veld-Merkoulova (2004) used a sample of 156 spin-off companies announced between January 1987 and September 2000 from 15 different European countries to study wealth effects. The cumulative average abnormal returns during the three-day event window were 2.62%. For subsequent completed spin-offs, this figure increased to 2.66%. Chai et al. (2017) studied the announcement effect of spin-offs listing by taking 87 spin-off announcements of the Australian Stock Exchange (ASX) from 1999 to 2013 as samples. The 3-day announcement effect is significantly positive 2.93%, but lower than the 3.28%-4.86% in the US market and close to the 1.82% in the UK. Deeksha et al. (2022) studied the impact of the spin-off announcements on shareholder wealth using a sample of 221 Indian companies listed on the Bombay Stock Exchange from 2003 to 2020. The spin-off has a significant positive impact on the company's share price, with an abnormal return (AAR) of up to 1.35% on day +1 after the announcement. In the interval (+1, +5) days, the maximum cumulative average abnormal return (CAAR) is 2.64%. Low-priced stocks significantly outperform high-priced stocks. During the event window (-10 to +10 days), low-priced stocks have a CAAR of 7.16%

compared to 3.90% for high-priced stocks.

Schipper and Smith (1986) conducted research on 76 companies that went through ECOs from 1963 to 1984. Their findings revealed that after the announcement of the subsidiary's ECO, the parent company's stock price had a positive response, with an average excess return of 1.8%. Allen and Mcconnell (1998) studied 188 ECO samples from 1978 to 1993 and found that the parent company's cumulative excess return during 3 days around the announcement was 2.12%.

Yu (2011) conducted a study on the stock prices of A-share listed companies in China between January 1, 2000, and April 13, 2010, regarding spin-offs. According to the research results, the stock prices of listed companies had significant positive price effects around the announcement date of the board resolution on spin-offs. The shareholders' meeting announcement date came next, with short-term price effects being negative around the listing announcement date but turning positive in the long run. Lin et al. (2015) analyzed domestic enterprises that successfully implemented spin-offs. They found that on the spin-off announcement day, the parent company's equity obtained a positive abnormal return rate and the cumulative average abnormal return rate over 20 days before and after the spin-off announcement was significantly positive.

Slovin et al. (1995) shifted their research perspective to study the stock price reactions of competitors in the industry of the subsidiary undergoing the equity carve-out, finding a -1.1% abnormal return. M. et al. (2002) studied 185 equity carve-out events from 1981 to 1994, with samples from NYSE/ AMEX and Nasdaq listed companies. Competitors in the parent company's industry will have a stock price decline when the spin-off listing announcement is published (average -0.41%, median -0.66%).

Vijh (2002) conducted a detailed analysis of the factors influencing stock price returns in ECOs and discovered that when the assets of the subsidiary undergoing the ECO were greater than the non-carved-out assets, the excess return during the announcement period reached 4.92%. In cases where the subsidiary's assets were smaller than the non-carved-out assets, the excess return during the announcement period is only 1.19%.

Hogan and Olson (2004) compared the difference in ECO returns between normal market periods and bubble periods. They found that during the normal period from 1990 to 1998, the average return on the first day of subsidiary listing was 8.75%; In contrast, during the bubble period from 1999 to 2000, the average return on the first day of listing reached 47.76%. This suggests that market volatility is also an important factor affecting ECO returns.

Li et al. (2012) compared different locations for spin-offs and found significant differences

in market reactions regarding the excess return of parent companies. Chinese companies experienced a noticeable decrease in cumulative excess returns for parent companies after the spin-off in the United States, compared to the excess returns before the spin-off. Conversely, when Chinese companies performed spin-offs in Hong Kong, the fluctuation in parent company stock prices was lower than companies that carved out in the United States, and their stock prices showed a more stable upward trend.

Long-term return rate

Guo and Wan (2010) summarized existing research results and found no consistent conclusions regarding the long-term returns of parent companies and subsidiaries after spin-offs. It is still unclear whether there is a positive or negative impact on long-term returns and what factors influence these returns, warranting further research.

Desai and Jain (1999) studied the long-term stock returns following spin-offs. For a sample of 155 spin-offs between 1975 and 1991, the announcement period and long-term excess returns for focus-increasing spin-offs were significantly higher than those for non-focus-increasing spin-offs. Prezas et al. (2000) studied the stock pricing of 251 Equity Carve-Outs from 1986 to 1995, The six-month, one-year, and three-year returns of the ECOs were 7.61%, 11.75%, and 21.07%, respectively. Chai et al. (2017) studied the long-term stock returns of companies listed on the Australian Securities Exchange following spin-offs. The evidence suggests that the long-term excess stock performance is significantly positive at 23.43% in the 24 months after the spin-offs. The synergistic effect may be gradually released in the later stage, and the long-term value is reflected behind time. For the spin-off listing of focus-increasing, the excess return within 12 months was significant, reaching 25.42%. Vijh (1999) explored the long-term performance of companies after ECOs and examined a sample of 628 ECO companies from 1981 to 1995. The study discovered that subsidiaries, in the three years following their ECOs, had performance levels at least equal to the corresponding benchmark returns, with an average annual raw return of 14.3%, significantly higher than that of initial public offerings (3.4%) and seasoned equity offerings (4.7%) during the same period. Several reasons for the outstanding long-term stock performance of subsidiaries are addressed. Firstly, the separation into subsidiaries and the parent company provides an opportunity to focus on fewer business areas. Secondly, the subsidiaries gain some autonomy to carry out their own business activities. Thirdly, the reputation effect may prevent the excessive pricing of newly issued stocks.

Veld and Veld-Merkoulova (2004) analyzed the wealth effects on long-term returns. For parent companies, subsidiaries, and companies planning to merge, the long-term returns exceeding those of matching companies were mostly negligible. This result indicates that,

unlike spin-offs in the United States, spin-offs in European do not lead to sustained outstanding performance.

Madura and Nixon (2002) found that the long-term performance of parent companies and subsidiaries deteriorated after ECOs. Particularly, parent companies facing financial difficulties before ECOs experienced even worse long-term performance for both parent companies and subsidiaries, suggesting that parent companies did not effectively relieve pressure by carving out subsidiary companies, resulting in prolonged adverse value effects for subsidiaries.

Dasilas and Leventis (2018) investigated the valuation effects of ECOs in European. ECO announcements brought significant abnormal returns to the parent company's shareholders. However, after two years of ECO transactions, a significant price reversal was observed. The subsidiaries resulting from restructuring transactions also initially experienced positive market reactions, followed by a severe price loss within the first few months of listing.

2.4.2 The impact of spin-off on enterprises operating performance

Daley et al. (1997) selected return on assets (ROA) as the measurement index of operating performance. The calculation formula is operating earnings-to-assets. Considering operating performance separately from taxes and bonds can better test the impact of spin-off listing on operating performance. ROA is preferred over measures such as operating margin (operating profit/sales) or asset turnover (sales/assets) because there is no a priori basis for discovering the source of performance improvement. Return on total assets is the product of operating profit margin and asset turnover (ROA = operating profit margin x asset turnover). Even if operating profit margin and asset turnover increase slightly and insignificantly, return on total assets may increase significantly. In this thesis, operating profit is EBIT.

Daley et al. (1997) found that cross-industry spin-offs generated significant excess returns (median 3.0%) of the parent company and its subsidiaries, and the improvement was concentrated in the core business of the parent company. There is no significant change in the ROA of the same industry spin-offs. Desai and Jain (1999) found that, compared with non-focus-increasing spin-offs, operating performance were positively correlated with focus-increasing spin-offs.

Powers (2003) conducted a study on 181 ECOs from 1981 to 1996 and found that the operating performance peaked during the ECO and then significantly declined. The return on assets (ROA) of subsidiaries reaches the peak at the time of issuance (the mean value is 17.17%, significantly higher than the industry level), and then decreases year by year, and approaches the industry average five years later. When subsequent performance was poor, parent

companies sold more shares. There was a negative correlation between long-term excess returns and the proportion of shares sold. Dasilas and Leventis (2018) researched the valuation effect of ECOs in Europe and found that when it can be proven that disposing of subsidiary assets is the optimal business decision, the parent company's operating performance improves as a result. Lin et al. (2015) found that parent companies experienced significant improvements in operating performance following the spin-off, while subsidiaries' performance was less satisfactory. Isabel Oliveira et al. (2023) showed that the performance of spin-off subsidiaries will not change after they obtain independent status.

Xiao and Geng (2019) examined the performance of spin-offs using financial metrics related to solvency, operating capacity, profitability, and growth. Solvency metrics include indicators as current ratio, quick ratio, and assets-debt ratio. Operating capacity metrics include indicators as asset turnover, accounts receivable turnover, and inventory turnover. Profitability metrics are primarily assessed through indicators such as return on equity, cost-to-income ratio, and sales margin. Growth capacity metrics are mainly analyzed and evaluated using three indicators: revenue growth rate, month-to-month and year-to-year changes, and net profit growth rate. Chemmanur et al. (2014) found that spin-offs improved total factor productivity (TFP) and lasted a long time. The increase in productivity after the spin-off can be attributed to cost savings. Sapienza et al. (2004) examined the impact of knowledge relevance on the growth of enterprises after spin-offs. Spin-off growth is greatest when the knowledge base of the spinoff partially overlaps with that of its parent company. This effect arises from learning, and both too small and too large overlaps inhibit growth. Limited knowledge overlap can hinder local search and knowledge assimilation, and large knowledge overlap can hinder the creation of new knowledge combinations.

Chapter 3: Research Methods

3.1 Applicability of case study method

Research methods in management can generally be classified into empirical research and non-empirical research. Empirical research includes laboratory studies, survey methods, and case study methods, while non-empirical research encompasses conceptual studies and mathematical modeling. Based on the form of empirical data, empirical research methods can be further divided into quantitative research, qualitative research, and mixed-method approaches.

Quantitative research primarily uses data to describe specific phenomena (Eisenhardt, 1989), employing statistical methods to test causal relationships between independent and dependent variables (Larsson, 1993). Typical quantitative methods include surveys, laboratory studies, and econometric analysis. Surveys adopt structured questioning, requiring respondents to answer a limited set of questions. Large datasets from respondents are collected, and quantitative analysis of results is processed using statistical software (Larsson, 1993). Laboratory studies manipulate independent variables in controlled environments to observe changes in dependent variables, revealing relationships among variables.

Qualitative research, often exploratory in nature, analyzes the qualitative characteristics of research subjects, enabling researchers to identify and understand real-world issues (Weiss, 1995). Qualitative research emphasizes describing and exploring events through language (Glesne, 1992), primarily using methods such as structured observation, participant observation, interviews, or document analysis (Meredith, 1998). Typical qualitative methods include ethnography, grounded theory, and action research.

Case studies collect qualitative or quantitative data through interviews, archival documents, and observations. Although case studies often rely on qualitative data from multiple sources and are generally considered qualitative research, they may also incorporate quantitative data. Quantitative data helps uncover relationships that may be overlooked, prevents researchers from being misled by vivid but inaccurate qualitative impressions, and reinforces conclusions already supported by qualitative data (Eisenhardt, 1989).

Case studies are a form of empirical research that deeply investigates contemporary real-

world phenomena (Yin, 2018). Creswell (2006) views case studies as a qualitative method, where researchers, over time, collect detailed and in-depth data from multiple sources to explore one or more bounded systems in contemporary real life. Case studies are also a research strategy, focusing on understanding the dynamics within a single context (Eisenhardt, 1989).

Yin (1994) stated that case studies are particularly suitable for answering "what" and "why" questions. They emphasize the real-life context of the phenomenon and allow for rich contextual descriptions. They are especially appropriate for exploring complex management phenomena that evolve dynamically over time. Through detailed descriptions, they reveal what happens inside the "black box" and uncover the dynamic mechanisms underlying observed changes (Huang et al., 2011).

Depending on the research purpose, case studies can be classified into descriptive, evaluative, and exploratory types. Descriptive case studies focus on characterizing individuals, events, or scenarios, aiming to summarize phenomena and draw conclusions, often suitable for exploring correlations or causal relationships. Evaluative case studies require researchers to articulate their perspectives and interpret collected data using these insights. Exploratory case studies seek new perspectives on phenomena or reassess them through innovative thinking.

Case studies rely on analytical generalization rather than statistical generalization (Johnston et al., 1999), and their validity depends on theory-guided data analysis. Theory serves both as the objective of research and the foundation for analyzing case materials (Larsson, 1993). Within case studies, theories can be verified, extended, or used to test conclusions drawn from previous analyses.

Case studies can involve a single case or multiple cases (Yin, 1994). Single-case studies focus on one case, while multiple-case studies examine two or more cases. A single-case study focuses on one specific case—either typical, unique, or extreme—and is often used for developing or validating theory. A multiple-case study involves both within-case analysis and cross-case analysis. The former provides a comprehensive analysis of each case as an independent entity, while the latter integrates findings across cases through abstraction and synthesis.

Meredith (1998) argued that a single-case study ensures analytical depth and a thorough understanding of the case context. Conversely, Eisenhardt (1989) suggested that multiple-case studies yield more comprehensive conclusions by replicating analyses across different contexts. The choice between the two depends on research objectives, questions, available resources, and the balance between depth and breadth (Li et al., 2020).

3.2 Considerations for case sample selection

Spin-off listings have existed abroad for decades, whereas in the Chinese market, they have only commenced in recent years, with both institutional development and practical experience undergoing a relatively long evolutionary process. In China's mainland A-share market, the "A-spin-off-A" model is the predominant mode. During the period from 2021 to 2023, the number of spin-off listings reached 28 stocks. Conversely, within the real estate industry, the spin-off listing of property management companies primarily follows the "H-spin-off-H" model, with a significant number of 26 stocks listed. Among Chinese enterprises that executed spin-off listings, real estate companies account for a relatively high proportion.

The operational performance scale of the parent company, Country Garden Group, ranked 6th in China's real estate industry in 2011 and rose to 1st by 2018. As one of China's most prominent real estate developers, its motivations for spin-off listing merit study, offering potential theoretical contributions. The subsidiary, Country Garden Services, ranked 5th in operational performance within China's property management industry in 2017 (one year before spin-off listing) and rose to 1st by 2021 (three years post-spin-off), maintaining the top position thereafter. As the fastest-growing company post-spin-off in terms of operational performance, its economic consequences warrant in-depth study, contributing significantly to theoretical development.

The author of this research has worked at Country Garden Group for nearly six years and is familiar with its development history, business operations, corporate culture, and the milestone event of its spin-off listing. Moreover, as a resident of a Country Garden community managed by Country Garden Services, the author has direct experience with the company's real estate and property management quality. This proximity facilitates convenient access to research materials.

3.3 Overview of case enterprises

3.3.1 Country Garden Group

Country Garden (2007.HK) is one of China's leading real estate developers specializing in urbanization. Listed in Hong Kong in 2007, it employed 131,387 people as of 2018 and was ranked 138th on the 2022 Fortune Global 500. The Yang Huiyan family holds a 52.6% stake, making them the actual controllers of the company.

Since its founding in 1992, Country Garden has experienced remarkable growth and development (see Table 3.1). By the end of 2018, Country Garden' operations extended across 31 provinces and municipalities, 269 prefecture-level cities, and 1,156 counties in mainland China. In that year, total equity sales reached RMB 501.8 billion, with a gross floor area of 54.16 million square meter. From 2015 to 2018, the compound annual growth rate of equity contract sales was 59.2%.

Table 3.1 Key milestones in the development of Country Garden Group

Phases	Milestone
Incubation phase	Country Garden was officially founded in 1992. In 2002, the Guangzhou Phoenix City project was launched, achieving sales of over RMB 750 million, marking a significant milestone in the company's performance.
Growth phase	In 2007, Country Garden was listed on the HKEX, reaching a market value exceeding HK$ 100 billion on its first day of trading. By 2008, it had expanded its projects nationwide, launching 23 new projects that year.
Maturity phase	In 2011, Country Garden expanded internationally with its first investment in Malaysia. It introduced the "Achievement Sharing" strategy in 2012, followed by the "United Sharing" strategy in 2014. In 2015, Ping An Insurance (Group) Company of China made a strategic investment, providing a solid foundation for future financing.
Second growth curve	In 2018, Country Garden Services was spun off. By 2019, it began focusing on modern agriculture and robotics as new areas for growth and expansion.

Country Garden actively aligns with national economic development policies, focusing on large-scale real estate projects in second- and third-tier cities with high growth potential. As urbanization advances and the living standards of migrant workers improve, the demand for improved housing has risen. These workers often leave rural areas with limited medical and educational resources but are unable to afford housing in expensive major cities. As a result, they tend to choose towns offering relatively lower housing prices alongside more affordable medical and educational facilities. Country Garden's product offerings are closely aligned with China's urbanization and modernization trends. Among its real estate projects, 56% are in third- and fourth-tier cities, 30% in second-tier cities, and the remaining 14% in other areas.

The real estate development industry is marked by "large investments and long cycles." Project development is challenging, and returns on investment are typically modest. However, by adopting a "high turnover" business model—characterized by low costs, rapid project turnover, and high leverage—developers can quickly acquire land, develop projects, and sell or liquidate assets, recycling funds efficiently. This approach enables the continuous expansion of business scale and high capital turnover, ultimately allowing developers to maximize return on

equity with minimal capital investment.

In terms of management incentives, Country Garden introduced the 'Achievement Sharing' incentive plan in August 2012, which allocates a portion of excess profits from projects to employees, focusing mainly on project and regional managers. After refining and iterating the plan, it launched the 'United Sharing' plan in October 2014. Under this model, Country Garden and management staff jointly invest in new project companies, with each project operating as a separate entity. These two plans work in tandem, providing strong two-way incentives for regional and project management teams to share in both profits and losses. This approach ensures comprehensive coverage for all involved employees, fostering a collaborative environment in which everyone supports project operations.

With precise market positioning, active capital market financing, a "high turnover" business model, and a robust incentive system, Country Garden ascended to the top position in China's real estate industry.

However, these successes have been accompanied by risks. After more than thirty years of rapid growth, the real estate market began to show signs of saturation, posing significant challenges to revenue growth. In 2022, Country Garden's sales started to decline sharply, and by 2023, it struggled to repay bond principal and interest, signaling the onset of a business downturn.

Country Garden's target customer base primarily comprises mid- to low-income individuals, a market positioning that carries inherent risks. When economic growth slows, the purchasing power of third- and fourth-tier customers may diminish rapidly, threatening the sales. Heavy reliance on financing acted as a growth accelerator during market upturns but became a substantial financial burden as the economy entered a downturn. The high turnover in project development also posed risks to project quality, while the substantial financial leverage resulting from rapid capital turnover heightened the risk of a financial crisis. During market downturns, diminishing project returns could turn incentive mechanisms like 'Achievement Sharing' and 'United Sharing' into negative incentives for management.

Recognizing these risks, Country Garden has proactively diversified its business operations while maintaining a focus on its core real estate development. It is working to establish its "second growth curve," with a business scope that spans real estate development, construction, property management, interior decoration, hospitality, and beyond. Additionally, it has expanded into industries such as construction robotics and modern agriculture. According to Country Garden's 2021 financial report, the real estate, robotics, and modern agriculture sectors are becoming the "three pillars" supporting the growth. In the strategic decision-making process

for its "second curve," two critical issues arise: which business sectors should be developed as core pillars, whether these markets have growth potential, and whether internal resources and capabilities provide a competitive advantage. Additionally, Country Garden must decide whether to nurture these businesses internally or spin them off into independent entities.

3.3.2 Country Garden Services

As its real estate development business reaches maturity, Country Garden has proactively expanded into emerging sectors. Among its diverse business portfolio, the decision to spin off its property management services in 2018 was driven by factors such as market potential, internal resources and capabilities, and the capital market landscape.

Country Garden Services Holdings Company Limited (6098.HK), a leading property management provider in China, was successfully listed on the HKEX in 2018 (see Table 3.2). It has been recognized by the international capital market in terms of investment value, financing capabilities, credit ratings, development traits, and service excellence. The Yang Huiyan family holds a 56.65% stake, making them the actual controllers of Country Garden Services.

Table 3.2 Key milestones in the development of Country Garden Services

Year	Milestone
1992	Began providing property management services in China
2005	Obtained first-level property management qualification in China
2011	Launched community value-added services
2013	Expanded services to properties developed by third-party developers
2014	Established community service centers and began offering real estate economic services
2015	Ranked 9th in the China Property Service Top 100 Enterprises by China Index Academy
2016	Improved to 5th place in the China Index Academy's comprehensive rankings Country Garden Property Management brand valuation reached RMB 3.85 billion Obtained ISO9001 and ISO14001 certifications from the British Standards Institution
2017	Advanced to 3rd place in the China Index Academy's comprehensive rankings
2018	Successfully listed on the HKEX

Residential property management services were offered in 1992, and Country Garden Property Services was formally established in 2004. In 2021, Country Garden Services ranked first on the "2021 China Property Service Top 100 Enterprises" list, jointly published by the China Index Academy and the China Real Estate TOP10 Research Group. At the same time, its operating performance and service scale both ranked first on the 2021 China Property Service Top 100 list.

Country Garden Services focuses on its “three core businesses” and implements a “dual-engine drive” strategy. These core businesses include property management services, community value-added services, and non-property owner value-added services, and are complemented by expanding areas such as “three supplies and one industry”, urban services, and commercial operations, which offers a comprehensive range of services across the entire property management value chain. It diversifies its income streams through both residential and non-residential properties, with an expanding focus on non-residential projects, including office buildings, industrial parks, commercial properties, schools, hospitals, government buildings, and public facilities.

Country Garden Services operates on a dual strategy of organic growth and external expansion. It drives organic growth by leveraging Country Garden’s extensive real estate assets, while also expanding through property management contracts from independent third-party developers. In 2017, contracts from third-party developers accounted for approximately 21.6% of the newly added managed area. Its services span 31 provinces and cities across China and over 400 cities globally, managing more than 7,000 projects, with a contract-based managed area of 1.65 billion square meters (sq.m). and serving 8.85 million property owners.

Given Country Garden’s leadership position in the real estate development industry, Chairman Yang Guoqiang has repeatedly emphasized the importance of achieving industry leadership in property management services as well. In 2018, when Country Garden Services was spun off and listed, it ranked 5th in the property management industry, a considerable gap compared to its strategic goals. To achieve a breakthrough in business development, should Country Garden Services follow the successful model established by Country Garden in areas such as market positioning, capital market financing, business model, operational capabilities, and incentive systems? Or should it carve out a unique development path based on the specific characteristics of the property management industry? These questions now challenge Country Garden’s top decision-makers.

By 2021, just four years after the spin-off, Country Garden Services achieved the industry’s top ranking in terms of performance scale. What were the key factors behind this remarkable growth? Was leveraging the “spin-off and listing” financial strategy essential for this leap forward? In what areas has the spin-off contributed to its improvements? Answering these questions makes this case study a valuable reference for understanding the strategic evolution of Country Garden Services.

3.3.3 Country Garden's spin-off process

The spin-off of Country Garden Services was successfully completed, with the entire process outlined as follows (see Table 3.3).

Table 3.3 Spin-off process of Country Garden

Date	Timeline
2016.03.16	Announced plan to spin off the property management business
2016.08.31	Submitted application materials to the China Securities Regulatory Commission (CSRC)
2016.09.07	Received the acceptance notice from CSRC
2017.12.11	Withdrew the application for A-share spin-off listing in China
2018.03.19	Obtained approval for H-share listing on the HKEX and submitted the listing application form
2018.05.17	Had the shareholder resolution on the stock option plan adopted
2018.05.29	Conditionally approved the distribution of physical shares by the board of directors
2018.06.13	Confirmed the record date for the conditional distribution of rights
2018.06.14	Restored the stock transfer registration date
2018.06.15	Distributed the shares of Country Garden Services
2018.06.19	Began trading of the shares of Country Garden Services on the HKEX

On August 31, 2016, Country Garden Property Services applied for an A-share listing on the China Securities Regulatory Commission (CSRC), and received an acceptance notice on September 7, 2016. During the review of the application materials, the CSRC raised concerns regarding related-party transactions between Country Garden Services and its parent company, Country Garden, as well as issues related to independent operations. Following several rounds of discussions on these matters, and after considering factors such as the desire to shorten the listing cycle, align with business strategy, and adjust the shareholding structure, Country Garden Property Services decided to withdraw its A-share listing application in December 2017. On March 19, 2018, Country Garden Services submitted its application for listing on the Hong Kong Exchanges main board market (HKEX).

Country Garden Services officially listed on June 19, 2018, with a market value exceeding HK$ 25 billion, making it the leader in Hong Kong's property services industry. Key highlights of this listing included the spin-off and the listing by introduction. The spin-off was a strategic move in the best interest of shareholders, resulting in a win-win outcome. The listing by introduction method allowed for a shorter waiting period, with only three months between the initial announcement and the listing's completion.

3.4 Data collection and evidence analysis strategy

This research adopts multiple data collection methods—including document review, observation, and interviews—to obtain both qualitative and quantitative data. Yin (2018) summarized several principles for data collection.

The first principles are "use multiple sources of evidence". This approach broadens the scope of data and strengthens the evidence basis of findings. Cross-verification of data from different sources forms an evidence triangle, enhancing the construct validity of the case study. In this study, research materials were obtained from the broadest possible range. As shown in Table 3.4, data collection methods include documents, observations, and interviews, verified across case specific data, industry data and macro economic indicators dimensions.

Table 3.4 Sources and dimensions of data collection

No.	Data sources	Dimensions
1	Annual reports and prospectuses of Country Garden Group	Part One Case specific data
2	Annual reports and prospectuses of Country Garden Services	
3	Official websites of Country Garden Group and Country Garden Services	
4	Annual reports and prospectuses of 26 real estate companies	
5	Annual reports and prospectuses of 26 property management service companies	
6	Annual reports of 6 Non-spin-off companies	
7	Wind Financial Database (www.wind.com.cn)	Part Two Industry data
8	HIBOR investment research reports (www.hibor.com.cn)	
9	Real estate and property management associations	
10	Research institutions such as China Index Academy	
11	Stock exchanges (HKEX: www.hkex.com.hk, SSE: www.sse.com.cn, SZSE: www.szse.cn)	
12	National Bureau of Statistics of China	Part Three Macro economic indicators
13	People's Bank of China	

The second principles are "establish a case study database". This involves systematically compiling all case study materials into a separate, organized repository. Beyond reading the research report, readers can access the entire database, including electronic files and folders. This enhances the reliability of the research.

The third principles are "maintain a chain of evidence". This enables readers to trace evidence from initial research questions to final case study conclusions. Readers should also be able to trace steps bidirectionally, from conclusions back to questions or vice versa. This principle improves construct validity. Following the theoretical framework outlined in Chapter 1, Section 4, each case material was collected and analyzed with theoretical support, forming a

coherent and traceable chain of evidence.

The spin-off period is defined using a relative year framework, wherein the year of each company's spin-off and subsequent listing is designated as Year 0. Comparative financial and operational data are presented for a total of ten years: three years prior to the spin-off (Years -3, -2, -1), the spin-off year itself (Year 0), and six years thereafter (Years +1 through +6). For instance, in the case of Country Garden Services, which was spun off and listed in 2018, that year serves as Year 0; accordingly, the observation window spans 2015 - 2024, corresponding to Years -3 through +6. Given that the overall spin-off listing period across the sample ranges from 2014 to 2022, the full dataset covers the years 2011 - 2024, ensuring three pre-spin-off years for all firms and up to six post-spin-off years where available.

When comparing property management companies with real estate developers, the differences in operating income and asset scale are substantial. Therefore, the median rather than the mean serves as the more appropriate benchmark for comparison.

Evidence analysis involves examining, categorizing, tabulating, testing, or synthesizing data to draw conclusions based on empirical evidence. Yin (2018) proposed several analytical techniques: pattern matching, explanation building, time-series analysis, and logic models.

Pattern matching compares empirically established patterns (based on research findings) with theoretically predicted patterns, involving parameters of theoretical models, acquisition of observed patterns, and attempts to match them (Trochim, 1989). Consistency between empirical and predicted patterns enhances the internal validity of case study conclusions. For studies on spin-off listing motivations, established theories such as information asymmetry, managerial incentives, business focus, and financing convenience enable pattern matching between empirical results and theoretical predictions.

Explanation building is a specialized form of pattern matching with more complex steps, aiming to analyze case study data by constructing explanations about the case.

Time-series analysis compares observed (empirical) trends with either theoretically predicted trends established before the case study or opposing trends identified earlier. Segmenting time series creates conditions for assessing potential causal relationships. With appropriate data, statistical analysis can reveal trends, and regression discontinuity analysis can test for trend differences before and after key events (Campbell, 1969). In case studies, time-series analysis identifies specific indicators, segments time periods, and proposes hypothetical causal relationships between events.

Spin-off listing is not an instantaneous event; its economic consequences (e.g., value revaluation, financial performance changes) emerge gradually over time. Time-series analysis

clearly illustrates market reactions (e.g., excess returns) around the spin-off announcement and long-term (e.g., 1-year, 3-year) changes in company performance, confirming temporal associations between economic indicators and the spin-off event. Its limitation lies in its inability to fully establish causality or explain "why" these effects occur.

Logic models involve complex, precise chains of events over a period, exhibiting repeated "cause-effect-cause-effect" cycles where dependent variables in one stage become independent variables in the next. This technique maps the causal chain from "spin-off listing" to "economic consequences." By validating causal mechanisms, logic models effectively address "why" spin-offs produce these economic outcomes, compensating for the limitations of time-series analysis.

In summary, this case study's evidence analysis strategy defines the research framework with logic models, uses time-series analysis to quantitatively validate final results and intermediate outputs, and employs pattern matching to align empirical findings with classic theories, thereby enhancing the validity and reliability of the case study and ultimately elevating its theoretical value.

[This page is deliberately left blank.]

Chapter 4: Analysis of the Motivation for the Spin-off of Country Garden

4.1 Establishing an independent financing platform

4.1.1 Parent company's real estate business hit by industry downturn

Since China initiated the market-oriented reform of the real estate industry in 1998, the rapid expansion of the real estate industry has provided a solid business foundation for property management, along with essential resources such as funding and personnel, driving the industry's growth. In recent years, while the property management sector has experienced significant performance and scale growth, the real estate industry itself has gradually reached its peak, and the challenges faced by its operations have become more pronounced.

The real estate industry focuses primarily on development, operations, management, and services, characterized by long construction cycles, large investment scales, poor asset liquidity, and the ability to preserve and increase asset value. Considering the three key factors influencing China's real estate industry—population, land, and currency—the development of the real estate industry can be divided into four main stages.

The first stage is real estate marketization initiation. In 1998, the State Council issued the "Notice on Further Deepening the Reform of the Urban Housing System and Accelerating Housing Construction," which first clearly outlined policies such as "stopping the physical allocation of housing and gradually implementing the monetization of housing allocation" and "developing housing finance, cultivating, and standardizing the housing transaction market." These policies marked the introduction of the housing commercialization system in China. This phase saw the commercial housing market gradually becoming more active, with sales area and revenue growth consistently maintaining a high range of 20%-30%. Land and housing prices increased moderately, while real estate development investment showed fluctuating upward trends, maintaining a growth rate of around 25%.

The second stage is real estate demand-driven development. From 2003 to 2007, following the introduction of the land auction system, urban population growth became more pronounced, and the demographic dividend effect became evident. Urban residents' disposable income

rapidly increased, with the growth rate rising from 10% in 2003 to 17% in 2007. This wealth effect led to a sharp release of housing demand. As local governments became more dependent on land-based fiscal revenue, land supply became inflexible, leading to the first supply-demand imbalance in the real estate market. Simultaneously, monetary supply remained at a high growth rate, providing ample financial support for housing demand. Land and housing prices rose significantly, with the growth rate of commercial housing sales surpassing that of sales area. The sales area of commercial housing skyrocketed from 322 million sq.m. in 2003 to 774 million sq.m. in 2007, more than doubling. The sales value of commercial housing grew from RMB 767.1 billion (EUR 95 billion approximately) in 2003 to RMB 2.99 trillion (EUR 373.75 billion approximately) in 2007, nearly quadrupling. While development investment growth remained high, land supply and new construction began to decline gradually. This overheated real estate market led to the first round of regulatory cycles in history.

The third stage is real estate value revaluation due to two rounds of loose monetary policy. From the global financial crisis in 2008 to 2016, local governments became increasingly dependent on land-based fiscal revenue, leading to a decrease in land supply. To maintain market stability, monetary policies were relaxed. China responded with two rounds of monetary easing. These measures primarily involved lowering the required reserve ratio (RRR) and one-year deposit and loan rates to boost market liquidity. During this period, sales area, value, and prices of commercial housing saw continuous fluctuations upward. Real estate development investment growth began to decline from its peak, land transaction area growth often turned negative, and new construction growth slowed as land supply became more constrained. The two rounds of monetary easing, coupled with regulatory measures, helped keep developers' performance growth at a high level.

The fourth stage is long-term 'targeted policies' in real estate. To avoid market fluctuations caused by inconsistent real estate policies, the government has gradually established a long-term mechanism for the real estate market since 2017, with 'targeted policies' being the preferred approach. The Central Economic Work Conference proposed guiding principles for a "multi-supplier system, multi-channel guarantee, and a housing system that integrates both rental and ownership," along with the establishment of a "long-term mechanism to promote the stable and healthy development of the real estate market." In 2017, the year before the spin-off of Country Garden Services, China's total commercial housing sales area reached 1.6 billion sq.m. The growth rate of commercial housing sales value, sales area, and housing prices began too gradually slow. The growth rate of real estate development investment stabilized around 10%. During this stage, developers' overall performance growth began to decelerate, and

profitability in the real estate industry began to decline. After 2019, targeted policies became a long-term strategy, and the industry entered a phase of high concentration, where stronger players continued to thrive, following a stock-based model.

Based on the analysis of these four development stages and referencing Figure 1.1 in Chapter I, the real estate industry entered its mature phase in 2017 and is now gradually entering its decline phase. The trend in Country Garden's operating revenue (refer to Figure A4.1 in the Annex) mirrors the overall development of China's real estate industry.

In the cyclical fluctuations of the real estate industry, customer demand remains the most fundamental driver of its development. From the perspective of consumption patterns, housing demand can be categorized into two main types: inelastic demand and improvement demand. Inelastic demand is primarily driven by population size and urbanization, while improvement demand stems from the desire to improve housing conditions, particularly through an increase in per capita housing area.

Currently, China's population size is on a general decline, marked by a decreasing birth rate and an increasingly aging population. According to the 2023 China Statistical Yearbook, the total population at the end of the year was 1.40967 billion, representing a decrease of 2.08 million compared to the previous year. The number of births stood at 9.02 million, with a birth rate of 6.39‰ and a natural population growth rate of -1.48‰. The population aged 65 and above reached 216.76 million, accounting for 15.4% of the total population.

In terms of urbanization, the urbanization rates of the United States, the EU, and Japan were 83.3%, 75.71%, and 92.04%, respectively, in 2023. Between 2004 and 2023, China's urbanization rate showed a linear growth trend. In 2023, China's urbanization rate was 66.16%, with a permanent urban population of 932 million. Given the historical trends of Europe and the U.S. and China's vast agricultural land, it is anticipated that China's urbanization rate will reach about 70% by 2030 and likely stabilize at that level thereafter.

In terms of per capita housing area, developed countries generally have an average of over 30 sq.m., with the United States, the United Kingdom, and France having 52, 40, and 37 sq.m., respectively, while Japan and South Korea have 31 and 27 sq.m., respectively. In 2017, the per capita housing area for urban residents in China was 36.6 sq.m. By 2023, the per capita urban housing space had exceeded 40 sq.m., with further growth becoming increasingly challenging.

Considering key factors such as population size, urbanization rate, and per capita housing area, real estate demand is approaching its peak.

Population remains the fundamental driver of the real estate industry, while capital acts as an accelerator. As a capital-intensive industry, real estate industry is highly sensitive to

fluctuations in funding availability on both the demand and supply sides. During periods of monetary tightening, real estate developers face financing difficulties, which hinder investment and reduce supply. On the demand side, tightening monetary conditions and rising interest rates increase mortgage costs, which lowers both the willingness to take out loans and housing demand. Conversely, during periods of monetary easing, capital inflows into the real estate industry significantly stimulate both supply and demand. Over the past two decades, the financing system has played a pivotal role in the industry's development. The financing channels for real estate developers have evolved into a five-category system, including indirect financing, direct financing, overseas financing, and operational financing such as sales receivables and supply chain financing. In 2017, real estate developers in China raised new funds for project development totaling RMB 19 trillion (EUR 2.375 trillion approximately), with RMB 15.6 trillion (EUR 1.95 trillion approximately) of these funds coming to fruition. The total payable amounts reached RMB 3.4 trillion. The funds available to real estate developers have consistently increased from 2004 to 2020, but since 2015, the proportion of funds available to these enterprises in the money supply has gradually decreased (refer to Figure A4.2 in the Annex).

The above discussion describes the macro trends of the real estate industry, considering factors such as population and funding. From a micro perspective, the rapid development during the early stages allowed developers to accumulate significant assets. However, it also led to the accumulation of substantial debt, which now poses a heavy financial burden for these enterprises.

Real estate project development requires significant capital and has a long development cycle. Key stages, such as land acquisition and construction, require significant investment. The government strictly monitors the sources of funds for real estate developers' land acquisition, which must be sourced from the developers' own funds. The typical development cycle of a real estate project, from initiation to construction, completion, and handover to consumers, generally spans 3 to 5 years. According to conventional business practices, the profit margins for real estate developers should not be exceptionally high.

China adopts a pre-sale system for real estate development. As real estate prices have continued to rise, developers have increased their financial leverage at various stages of development. Several methods are used, such as the "fake equity, real debt" model, where 50% to 60% of the land payment is financed externally. Through bank development loans and other channels, up to 80% of construction costs are covered by financial institutions. Furthermore, once developers secure the pre-sale permit for a project, they can recover up to 80% of the sales

revenue from customers. Under this highly leveraged development model, funds are continuously rolled over, resulting in a larger scale of debt—such as advance payments from customers, payables to suppliers, bank loans, bonds, and senior notes. As performance expands, the number of ongoing projects increases. Since these projects typically require 3 to 5 years to complete, the demand for capital increases in tandem with the number of projects under construction.

Due to the heavy reliance on financial leverage, the financial statements of Chinese real estate developers generally exhibit characteristics such as "high inventory, high receivables, high liabilities, and low equity." Referring to Table 1.2 in Chapter 1, the asset-liability ratios of the top 15 real estate developers in 2018 were as follows: 7 developers had an asset-liability ratio exceeding 80%, 7 developers exceeded 70%, and only 1 developer had a ratio below 70%. This indicates a relatively high level of financial risk across the industry. As shown in Table 4.1, Country Garden, a representative private real estate developer, exhibits typical financial characteristics, with its asset-liability ratio remaining consistently high.

Table 4.1 Financial statement characteristics of Country Garden (2015-2020, Billion RMB)

Item	2015	2016	2017	2018	2019	2020
Receivables	43	117	278	437	452	425
Properties under construction	188	269	460	735	944	1,141
Total assets	362	592	1,050	1,630	1,907	2,016
Advance payments	97	192	347	563	647	696
Payables	73	152	331	499	595	660
Bank loans	54	69	136	232	253	207
Bonds and notes	36	67	79	97	117	119
Total liabilities	273	510	933	1,456	1,689	1,759
Asset-liability ratio	75%	86%	89%	89%	89%	87%

Country Garden actively participates in capital market financing, utilizing a variety of financial instruments, including new stock issuance, convertible bonds, corporate bonds, senior notes, and bank loans. In 2018, the total outstanding financing in the capital markets amounted to RMB 357 billion (EUR 44.625 billion approximately) (see Table A4.1 in the Annex). Its operational liabilities have steadily increased, with supplier financing reaching RMB 498.8 billion (EUR 62.35 billion approximately) and customer prepayments totaling RMB 562.8 billion (EUR 70.35 billion approximately). This robust capital management capability provides substantial financial resources to support investment expansion and scale growth.

As the asset-liability ratio of enterprises continues to rise, national administrative agencies are using legal, economic, and administrative measures to guide participants and behaviors in the real estate market to promote the healthy and sustainable development of the industry. In

practice, legal and economic measures are the primary tools, with administrative means playing a supplementary role. Capital is the lifeblood of real estate developers. Against the backdrop of strengthened financial supervision, deleveraging, the elimination of certain channels, and credit tightening, the financing system in the real estate industry is undergoing profound changes.

Given the continuous increase in the number of existing homes, the rapid rise in housing prices, and developers' high financial leverage, the government has continuously introduced regulatory measures aimed at curbing speculative behavior, preventing real estate "bubbles," avoiding financial risks, and promoting the healthy development of the industry. The regulatory policies target home buyers, real estate developers, financial institutions, and local governments (refer to Table A4.2 in the Annex), with the goal of controlling high leverage in the real estate industry by restricting access to capital, land supply, and consumer purchasing power.

To regulate corporate financing, the government introduced the "Three Red Lines" regulatory rules, which are as follows: "The asset-liability ratio excluding advances received must not exceed 70%; the net liability ratio must not exceed 100%; and the cash-to-short-term debt ratio must not be less than 1." Based on these indicators, enterprises that exceed all three criteria are categorized as "Red," those exceeding two are categorized as "Orange," and those failing to meet just one criterion are categorized as "Yellow." Enterprises meeting all criteria are categorized as "Green." Based on this classification, enterprises" interest-bearing liabilities are regulated as follows: "Red" enterprises cannot increase their interest-bearing liabilities; "Orange" enterprises are limited to a growth rate of no more than 5% per year; "Yellow" enterprises are limited to a growth rate of no more than 10% per year; and "Green" enterprises can increase their interest-bearing liabilities by no more than 15% per year. This regulatory framework directly limits enterprises' financing capacity at the source.

To assess the industry risk and predict the duration of the crisis, we selected the top 25 real estate enterprises by sales as samples and conducted statistical analysis on the "Three Red Lines" indicators based on the 2020 financial report data. In terms of the overall situation, as shown in Table A4.3 in the Annex, 16% of the enterprises were in the Red category, 44% in the Yellow category, and the combined proportion of medium-to-high risk was 60%, indicating significant pressure to reduce debt in the industry. Country Garden, under the "Three Red Lines" fell in the Yellow category, indicating a medium risk: the debt-to-asset ratio (excluding advance receipts) was 80.53% (exceeding the standard), the net debt ratio was 53% (qualified), and the cash-to-short-term debt ratio was 1.74 times (qualified).

In the context of "high asset scale, high liability scale, and low owner equity" in Chinese real estate developers, coupled with continued market demand shrinkage, poor property sales,

and an increasing number of private developers experiencing financial breakdowns, the industry's development has continued to deteriorate. In July 2021, Tahoe Group announced it was unable to repay the principal and interest of "H8 Tahoe 01" on time, with an overdue loan amount of RMB 43.693 billion. In September 2021, China Fortune Land Development disclosed that it could not repay its debts on time, with a cumulative overdue principal and interest of RMB 87.899 billion. In September 2021, Evergrande Group issued a statement saying, "We are currently facing unprecedented difficulties," with a total debt of RMB 2.4 trillion. Fantasia Holdings also announced that the US$200 million bonds due on October 4 were not paid on time. In March 2022, Sunac China announced it could not pay the interest on four US dollar bonds within the 30-day grace period.

Although only one of Country Garden's "Three Red Lines" failed to meet the standards, and its financial situation was relatively better compared to other private real estate developers, with the overall real estate market sales continuing to cool in 2023, along with inventory mainly located in third- and fourth-tier cities and an unreasonable asset structure, it announced in August 2023 that it was unable to pay interest on two U.S. dollar-denominated bonds, marking the beginning of its debt default. Despite these financial difficulties, Country Garden has emphasized its commitment to fulfilling its social responsibility and ensuring the timely delivery of homes. According to reports, in 2023, it delivered over 600,000 homes, with a total delivery area of 71.62 million sq.m., ranking first in the industry in terms of delivery volume. In 2024, Country Garden is expected to deliver over 480,000 homes, with the task of ensuring timely delivery requiring a large outflow of funds.

In conclusion, after more than 20 years of development, key indicators affecting real estate demand, such as population size, urbanization rate, and per capita housing area, are nearing their peak. Meanwhile, the proportion of funds available to real estate developers in the money supply has been gradually decreasing, signaling that China's real estate industry is entering a mature phase. The typical balance sheet characteristics of the industry—high asset scale, high liability scale, and low owner equity—combined with macro-control measures such as the "Three Red Lines," have further restricted financing, leading to widespread debt defaults among real estate developers. Despite these challenges, developers are still required to fulfill social responsibilities, such as ensuring timely home deliveries.

In this context, as real estate developers (the parent companies) face difficulty in providing additional funds for the expansion of their property segments, the funding gap for property management services will likely need to be filled through independent financing channels, with spin-offs emerging as an important option.

4.1.2 Subsidiary's huge growth potential of the property management market

As the real estate development market reaches its peak, the industry is gradually transitioning into a stock-based market, where competition will inevitably become more multifaceted. In this "Silver Age," when total market volume stabilizes, real estate developers must leverage their advantages and value propositions to stay competitive. Beyond focusing on controlling costs for land acquisition, they must also address new demands driven by urbanization and evolving customer life cycles, thus seizing fresh opportunities for value creation.

The shift from a traditional single-dimensional model to a more complex, multidimensional system has already become a development trend in the real estate industry. Competitive real estate developers will evolve from the traditional land acquisition and residential development model to one that integrates asset management and customer relationship management. By adding these dimensions, developers will transform into multidimensional organizations. Based on customer demand characteristics and their own development strengths, real estate developers, building on their existing residential business, will expand into areas such as property management, commercial real estate, elderly care, logistics, and long-term rentals, in response to the needs of the upstream and downstream industries, to compensate for slower growth in their core business.

As the industry enters the stock-based era, property management is expected to become a key driver of business growth. This shift underpins the rise of the property services industry. In the past, property management was viewed merely as an internal cost for real estate developers. Property services were often minimal and basic, aimed at cutting costs. However, as the market stabilizes, asset management has taken center stage, prompting real estate developers to focus more on business operations and innovative models in property services.

The concept of "property management" can be traced back to the 1860s in the UK, when Octavia Hill introduced regulations for managing tenants in properties she owned. The industry as we know it today began to take shape in the United States. In 1908, the first professional organization for property management, the Chicago Building Management Organization, was founded. Later, in 1933, the Institute of Real Estate Management was established in the U.S., focusing on professional education, training, and certification for property management professionals.

China's property management industry has evolved through three key stages. The first phase is emergence and establishment stage (1981-1993). In 1981, China's first property service company, Shenzhen Property Service Company, was founded, marking the start of organized

property management for foreign-affiliated commercial housing in Shenzhen Special Economic Zone. In 1989, the Ministry of Construction held China's first national residential community management conference in Daqing, officially bringing community management to the national agenda.

The second phase is exploration and development stage (1994-1998). In 1994, the Ministry of Construction introduced the first regulatory document on property management, the *Measures for the Management of Newly Built Residential Communities*, which stipulated that residential communities should gradually adopt a more socialized and professional management model, to be implemented by property service companies. In 1998, the Ministry of Finance issued the *Financial Management Regulations for Property Service Enterprises*, providing a comprehensive framework for the financial management of property service companies.

The third phase is standardization and growth stage (1999-present). In 1999, the Ministry of Construction introduced the *Trial Measures for the Qualification Management of Property Management Enterprises*, defining qualification levels and evaluation criteria for property management enterprises. In 2000, the China Property Management Institute was established, with 878 property management organizations becoming its first members. In 2003, the State Council issued the *Regulations on Realty Management*, formalizing the legal framework for the property management industry. In 2004, the *Regulations on Clear Pricing of Property Service Charges* were issued, followed by the enactment of the Property Law of the People's Republic of China in 2007, which clarified the legal nature of property management and defined the rights, obligations, and responsibilities of property owners.

Over the past three decades of reform and opening, China's urbanization rate has steadily risen, growing from 30% in 1996 to 66% in 2023. This shift has led to a significant migration from rural areas to urban centers, driving a surge in demand for residential housing and property management services. Concurrently, the per capita disposable income of residents has seen continuous growth. In 2022, the per capita disposable income was RMB 36,883 (EUR 4,610 approximately), nearly ten times higher than the RMB 3,721 (EUR 465 approximately) recorded in 2000 (refer to Figure A4.3 in the Annex). With the increase in urbanization and rising disposable income, consumer demands have evolved. Residents now have both the financial means and the desire for higher-quality property management services. This creates a solid foundation for the expansion of the industry's scale and improvement in service quality.

With the rapid growth of the real estate industry, the cumulative completed floor area has steadily increased, growing from 251 million sq.m. in 2000 to 13.647 billion sq.m. in 2018,

reflecting compound annual growth rate of 23.40% (refer to Figure A4.4 in the Annex). From 2009 to 2018, the accumulated increase in completed housing area reached 8.8 billion sq.m., with a compound annual growth rate (CAGR) of 10.96%. By 2018, the total managed area in China had reached 20.8 billion sq.m., growing at a CAGR of 5.94% from 2009 to 2018. This represented an increase of 9.1 billion sq.m. compared to 2009, nearly matching the newly completed housing area.

In addition to newly built homes, the stock of existing homes also offers a vast market opportunity for property management. Currently, the coverage rate of property management companies in existing homes remains relatively low. With local governments promoting the introduction of property management in aging residential areas, the market potential for managing existing homes and older properties has become enormous. By estimating the housing area of 864 million urban residents at 36.6 sq.m. per person and subtracting the 2.08 billion sq.m. of managed area in 2018, it is estimated that approximately 1.08 billion sq.m. of existing homes remain without property management.

The basic property management market has vast growth potential. In 2017, the total operating revenue of property service companies nationwide was approximately RMB 600 billion, representing a 100% increase from the RMB 300 billion market size in 2012. Data from the China Index Academy suggests that the basic property management market is expected to reach approximately RMB 1.2 trillion by 2020.

Additionally, high-quality property management services can generate a premium on housing prices, and there is still room for growth in property management fees. Property management companies that offer quality services help enhance developers' brands, gain a first-mover advantage, and increase their chances of securing exclusive property management contracts. For real estate developers, high-quality property management services can also boost new home sales. For property owners, good property management services enhance their living satisfaction and experience, while also ensuring the appreciation of their property assets.

Referring to Table 4.2, between 2016 and 2018, the compound annual growth rate (CAGR) of the top 10 property management companies ranged from 17% to 45%, highlighting the significant growth potential of the industry, especially when contrasted with the negative growth seen in the real estate industry.

Table 4.2 Compound annual growth rate of top 10 property management companies (2016-2018)

S/N	Company name	2016 (RMB 100 million)	2017 (RMB 100 million)	2018 (RMB 100 million)	Compound annual growth rate
1	Onewo	43	71	98	32%
2	Greentown Service	37	51	67	22%
3	China Merchants Property Operation & Service	/	/	67	/
4	Evergrande Property	20	44	59	45%
5	Country Garden Services	20	31	47	34%
6	China Resources Mixc Lifestyle	/	31	44	19%
7	Poly Property	26	32	42	17%
8	China Overseas Property	26	34	42	18%
9	Colour Life	13	15	36	38%
10	A-Living Smart City Services	12	18	34	41%

As shown in Table A4.4 in the Annex, in the case sample of Country Garden Services, the fee-based managed area increased from 70 million sq.m. in 2015 to 182 million sq.m., representing a 2.6-fold increase over four years. Meanwhile, the number of property projects surged from 194 to 840, a remarkable 4.3-fold increase during the same period. With the expansion of its contract-based managed area and the number of projects, operating revenue rose from RMB 960 million in 2014 to RMB 4.68 billion in 2018, reflecting an annual growth rate of approximately 50%, which is a 4.9-fold increase over five years (refer to Table A4.5 in the Annex). From 2015 to 2018, the operating revenue growth rate of Country Garden Services closely mirrored that of Country Garden. However, since 2019, Country Garden's operating revenue growth began to decline, with negative growth emerging in 2020, while Country Garden Services maintained a strong and consistent growth trajectory.

The number of property service companies in China has continued to rise. By 2017, over 118,000 property management companies had been established, an increase of 60,000 compared to 2008. Despite this growth, the industry is still in its early stages, with the competitive landscape characterized by "a large industry but small leading players." The market share of the top 100 property service companies has steadily increased, rising from 19.5% in 2014 to 32.42% in 2017. The average managed area for these companies grew from 17.49 million sq.m. in 2014 to 31.6383 million sq.m.. Similarly, the market share of the top 10 property service companies surged from 4.37% in 2014 to 11.06% in 2017, with their average managed area expanding from 76.2548 million sq.m. in 2014 to 215.8821 million sq.m.

In line with the property management models of developed countries and regions, property

service companies, acting as "professional property manager," now provide comprehensive management services. These companies focus on designing and planning services for property owners, organizing professional institutions to deliver these services, and overseeing the coordination and integration of services to fulfill contractual agreements with property owners. A key emphasis is on leveraging modern technology to develop core management systems under the "professional property manager" model, with specialized tasks being outsourced to expert institutions. As the market continues to evolve, differentiation among property service companies has become inevitable. Many smaller property service companies may be apt to specialize in specific fields, focusing on their strongest service lines. Meanwhile, companies positioning themselves as "professional property managers" will likely capture a larger share of the market.

To improve the market environment, address disputes effectively, and strengthen administrative supervision, the government has implemented a market access system for the property management industry, ensuring strict reviews of corporate qualifications. Property management companies are categorized into three qualification levels based on factors such as registered capital, total fixed assets, number of employees, technical capabilities, and operational scale: Level 1, Level 2, and Level 3. These qualifications reflect a company's strength, scale, performance, and integrity.

The increasing concentration of the market is driven by both capital and market forces. The influx of industrial capital and external investments underscores the capitalization of the industry. The appeal of the property management industry lies in the advantages of its business model: minimal capital expenditure, asset-light expansion, high return on investment, strong cash conversion rates, and the significant commercial potential of community economies. The rapid development of commercial infrastructure makes it feasible to monetize the value of community traffic. The market-oriented push in the industry comes from both government regulators and market participants. Government regulators have a clear market-oriented approach, encouraging competition. In the context of the slowing growth of the real estate industry, the commercial value of property management services is becoming more apparent. Real estate parent companies have increasingly supported the market expansion of these services, viewing them as more than just a cost center for real estate development.

4.1.3 Comparison of capital market valuation between parent and subsidiary companies

Firstly, there are significant cyclical differences between real estate development and property management industries. The real estate development industry is greatly influenced by factors

such as national regulatory policies, macroeconomic conditions, and customer demand, leading to substantial cyclical fluctuations in sales performance, with clear cyclical characteristics in the industry. The property management services industry exhibits limited cyclical volatility and is less affected by external environmental factors. Its operating revenue tends to remain stable, with its overall performance primarily driven by the business model and operational capacity. Once property management contracts are secured, service cycles are long, customer loyalty is high, service fees remain stable, and revenue from value-added services grows steadily. As a result, the real estate development industry carries higher risks, while property management services present lower risks (see Table A4.6 in the Annex).

Secondly, there are significant differences in the asset characteristics and operational cycles of the two industries. Real estate development projects involve long cycles that include land acquisition, construction, sales, and revenue recognition. In the early stages, significant capital is required for land acquisition and construction, making it a capital-intensive industry. Capital recovery typically takes several years, resulting in relatively long business cycles. Inventory and receivables account for a large proportion of total assets, while total asset turnover rate is relatively low. On the other hand, property management companies primarily rely on human resources, customer relationships, and brand value to drive growth and deliver high-quality services. With the rise of smart communities and community O2O technology services, the property management industry is adopting an asset-light operational model. Property management fees are typically prepaid and recognized as revenue over time, leading to a shorter business cycle. Inventory makes up a smaller proportion of total assets, and total asset turnover rate is higher (see Table A4.7 in the Annex).

Thirdly, from the perspective of operating cash flow and profitability, the real estate industry experiences significant fluctuations in net cash flow from operating activities, which are closely tied to cyclical policy adjustments and housing demand. In contrast, property management services exhibit more stability, with a business model like “rent collection,” where existing or newly acquired projects continuously generate stable cash flow (see Table A4.8 in the Annex).

Regarding profitability, property management services exhibit higher return on equity (see Table 4.3). For instance, in 2018, Country Garden achieved an ROE of 28%, largely driven by its equity multiplier, with financial leverage reaching 9.42 times. This high level of leverage indicates a significant amount of debt and considerable financial risk. In comparison, Country Garden Services achieved an ROE of 40%, primarily driven by a higher asset turnover rate of 0.85 and a net profit margin of 19.87%. These metrics were 3.7 times and 1.6 times higher than

those of Country Garden, respectively. Shareholder returns are more driven by improved asset utilization and the greater value provided to customers.

Table 4.3 Industry return on equity comparison (2018)

Item	Sector	Net profit margin	Asset turnover rate	Equity multiplier	Return on equity
Country Garden	Real estate	12.81%	0.23	9.42	28%
Country Garden Services	Property services	19.87%	0.85	2.37	40%

Correspondingly, property service companies are generally valued higher in the capital markets, with an average P/E ratio of 29.3, compared to just 3.96 for real estate developers (see Table 4.4).

Table 4.4 Comparison of P/E ratios by industry (As of June 30, 2018)

Listing date	Property service companies			Real estate developers		
	Company name	P/E ratio	Market value (RMB 1 billion)	Company name	P/E ratio	Market value (RMB 1 billion)
2015/10/23	China Overseas Property	30.89	25	China Overseas Land & Investment	3.87	203
2016/7/12	Greentown Service	24.55	26	Greentown China	5.90	29
2018/2/9	A-Living Smart City Services	13.21	34	Agile Group	2.03	23
2018/6/19	Country Garden Services	48.42	202	Country Garden	4.05	173
Average		29.3			3.96	

4.2 Enhancing corporate governance standards

4.2.1 The efficiency of the internal capital market within the group

In the early stage of diversification, the internal capital market played a very important role. The parent company holds residual rights of control over its subsidiaries, and the headquarters can reallocate cash flows among segments. Internal capital markets mainly function in terms of fund aggregation, capital allocation, and incentive constraints. In terms of fund aggregation, internal capital markets serve a “more -money” function. In terms of capital allocation, internal capital markets also served a smarter - money effect function. For incentive constraints, it was achieved through internal audits, performance evaluations, and various internal control mechanisms.

As diversification level increases, the advantages of internal capital markets in terms of information, supervision, and incentives gradually diminish. The "more money" effect may make diversified companies more inclined to expand their capital budgets, leading to overinvestment. With the large scale and multi-tiered structure of an organization, resulting in more complex agency structure and longer agency chains, the companies may engage in "cross-subsidy", where good departments would be underfunded relative to poor departments, or a phenomenon of "equalitarianism" within the company. Moreover, the existence of internal capital markets provides a platform for non-arm's length related transactions, improper guarantees, and fund appropriation between the parent company and subsidiaries.

While Country Garden primarily focuses on real estate development, it has actively expanded into diversified sectors such as construction installation, property management, decoration, property investment, and hotel development and management. However, by the end of 2017, prior to the spin-off, the top three revenue sources for Country Garden were real estate development, property management, and construction decoration, with property management accounting for just 1.17% of its total revenue (refer to Table 4.5), a relatively small share.

Table 4.5 Performance share of property management services in Country Garden (Unit: Million RMB)

Operating business	2015	Proportion	2016	Proportion	2017	Proportion	2018	Proportion
Real estate development	109,460	96.68%	148,180	96.79%	220,157	97.03%	369,405	97.45%
Construction and decoration	746	0.66%	1,143	0.75%	2,305	1.02%	5,265	1.39%
Property management	1,469	1.30%	1,959	1.28%	2,656	1.17%	1,632	0.43%
Hotel services	1,455	1.28%	1,708	1.12%	1,674	0.74%	2,550	0.67%
Operating lease	92	0.08%	97	0.06%	108	0.05%	227	0.06%
Total	113,223		153,087		226,900		379,079	

Early successes in diversification were more likely to make managers ambitious, overconfident, and excessively proud, leading to incorrect resource allocation decisions. In terms of the decision-making ability of the headquarters, the increased diversification makes decision more complex and results in decision-making errors in the process of "winner-picking". Country Garden Group, in its diversified investment businesses such as construction robots, modern agriculture and overseas real estate, will face situations where the investment payback period is too long or it incurs losses. According to its 2021 financial report, the real estate, robotics, and modern agriculture sectors are becoming the "three pillars" supporting the growth.

Country Garden has made significant investments in the robotics industry. In 2018, it established Bright Dream Robotics with registered capital of RMB 5 billion, appointing

renowned robotics expert Shen Gang as its first CEO. The company focuses on developing and applying construction robots while simultaneously advancing the research, manufacturing and application of robots for catering, agriculture and other fields. By 2019, the R&D team had grown to over 3,000 members, with more than 1,300 patent applications filed. Among 58 construction robot projects under development, 28 had entered the testing phase. In terms of corporate culture, industry characteristics, and cash flow features, significant differences exist between real estate development and construction robot industries (refer to Table A4.9 in the Annex). Although Country Garden Group has formulated an ambitious robot development plan, it has yet to make profit, and the R&D team and management team have also been in continuous turmoil.

Country Garden robot catering business established in May 2019, with registered capital of 1 billion RMB. The core business consists of two contents. The first is the robot restaurant. As of early 2021, more than 50 stores were opened. The restaurant covers Chinese food, hot pot, fast food, clay pot rice, noodle shop. It has built a complete system from central kitchen and cold chain logistics to robot cooking and intelligent distribution in stores. The second is the R&D and sales of catering robot equipment. It will sell or lease its own R&D equipment, such as clay Pot rice robot, coffee robot and ice cream robot. It has a R&D team of about 750 people and has submitted more than 500 patent applications by 2020. The business requires huge investment, long payback cycles and is difficult to commercialize. Robot restaurants have problems such as slow food delivery, many faults, lack of "fireworks" and poor user experience, which makes it difficult to achieve profits. With the shift of Country Garden Group's strategic focus, it has been unable to make large-scale investment in robot catering business.

In June 2018, Country Garden Agriculture was founded with registered capital of RMB 1 billion. The company deploys across the entire agricultural industry chain, forming three core business sectors, including modern seed industry, intelligent agricultural machinery platform and equipment manufacturing, and overseas agriculture, aiming to become a provider and service provider of modern agricultural technology solutions. Country Garden Agriculture invested in front-end seed R&D. In March 2020, it acquired 80% equity of BGI (Beijing Genomics Institute) Agriculture for RMB 300 million, with business scope covering new variety breeding of plants and animals, agricultural planting, deep processing of agricultural products, and micro-ecological research and applications. For smart farm deployment, the company partnered with Jiansanjiang Administration in October 2019 to build a large, unmanned demonstration farm at Erdaohe Farm in Heilongjiang. For overseas agriculture expansion, it signed cooperation agreements with China National Rice Research Center to

promote hybrid rice development in Madagascar. The development of modern agriculture relays on the layout of the whole industrial chain from breeding, scientific research to sales. It takes a long time from technology layout, R&D investment, industrial chain construct to profitability (refer to Table A4.9 in the Annex). As the parent company Country Garden Group reduce its investment in agriculture, the progress is slow.

Since 2012, Country Garden has actively expanded into international markets, with real estate development projects in Malaysia and Thailand. As of the end of 2022, its overseas investments, including both equity and bond investments, totaled RMB 3.695 billion (refer to Table A4.10 in the Annex). In view of differences in consumer preferences, government regulatory policies, land supply environment and financial system, Country Garden Group's business expansion in the overseas real estate market has made slow progress and difficult to make profits.

Country Garden's ventures into robotics and modern agriculture benefit from its substantial business scale and abundant market resources. However, as a non-specialized enterprise in these fields, it lacks professional expertise and struggles to grasp industry-specific characteristics. The robotics sector carries high R&D risks with uncertain ROI, while modern agriculture faces significant technological barriers and prolonged investment return cycles. Overseas markets require extended periods for local adaptation, presenting substantial upfront investment risks.

In contrast, Country Garden Property Services ranked 5th industry-wide in 2018, having established strong core competitiveness. With positive operating cash flow and relatively higher investment returns, this segment demonstrates more stable performance compared to robotics, modern agriculture, and overseas expansion. However, as property management is a subsidiary of Country Garden Group, the independence of management decisions is very low, and it is very easy to have insufficient investment in good businesses.

Before the spin-off, Country Garden Services was a subsidiary of Country Garden and did not have an independent board of directors. In the early stages after the listing, three of the board members of Country Garden Services were from Country Garden (see Table A4.11 in the Annex). Under this equity and organizational structure, Country Garden Services' strategic positioning, business expansion, investment and financing decisions, management team composition, and operational strategies were entirely dependent on its parent company, Country Garden.

Prior to its spin-off, Country Garden Services primarily functioned to support the sales of Country Garden's real estate projects. Country Garden residential communities prominently display the slogan "Give You a Five-Star Home," which has reshaped homeowners'

expectations of property services. By delivering property management that meets the standards and service levels of five-star hotels, Country Garden has earned strong market recognition and significantly boosted sales of its real estate projects. Chairman Yang Guoqiang, the founder, emphasized the business philosophy: "Country Garden has no future without excellent property services." Group President Mo Bin further noted that enhancing the company's overall competitiveness relies on the "One Efficiency, Five Forces" strategy—where service capability plays a central role. Internally, it was managed as a cost center rather than a profit or investment center. As shown in Table 4.8, in 2015, 96% of Country Garden Services' revenue came from projects developed by Country Garden. Although it gained independence, revenue from the Country Garden's projects still accounted for 89% as of 2018. However, revenue from third-party projects showed upward trend.

To sum up, excessive business diversification reduces resource allocation efficiency, particularly when business units exhibit divergent cyclical patterns, asset profiles, and operating cycles. In such situation, the parent company may opt to divests its business with development potential, and it will simultaneously enhance the business concentration of both the parent company and its subsidiaries, thereby improving the efficiency of resource allocation.

4.2.2 Incentive mechanism for the subsidiary management teams

When a segment or product line operates as part of a corporate group, the overall stock value of the company may not adequately reflect the productivity of individual unit or product line managers, as their value contribution is assessed based on accounting profits. This makes managers' interests conflict with shareholder value and presents an incentive challenge. Performance management tools are continuously evolving, with commonly used models including Economic Value Added (EVA), Key Performance Indicators (KPI), Management by Objectives (MBO), and the Balanced Scorecard (BSC). Each company selects the performance management tool that aligns with its strategic goals, external environment, business model, and operational strategies. In 2012, Country Garden introduced the "Achievement Sharing" incentive plan for its management team, a bonus-based program that does not require employee investment. In 2014, the plan was upgraded to the "United Sharing" initiative, which requires employees to invest in projects, embodying the concept of "shared risk and reward".

In 2012, Country Garden Group introduced the 'Achievement Sharing' incentive plan, aimed at regional presidents, project general managers, and senior members of project teams. The evaluation criteria for this incentive were based on individual projects, covering the entire project development cycle. The incentive package consisted of both cash bonuses and stock

options, with stock options granted to regional presidents and project general managers. The distribution of the total reward was as follows: regional presidents received between 30% and 70%, while the remaining portion was allocated to the project and regional teams at the discretion of the regional president. Functional departments at the headquarters received only 10% of the reward, prioritizing teams directly responsible for value creation. The incentive conditions required that Country Garden's own capital must be recovered within 12 months, and the project's net profit should exceed the annualized return on its own capital.

Achievement Sharing Reward = (Net Profit − Annualized Own Capital Investment × 30%) × Reward Ratio

Annualized Own Capital Investment = Invested Capital × (Days of Occupation / 365)

The reward ratio is divided into two situations: if the project development is led by the region, the allocation ratio is 20%; if it is led by the headquarters, the allocation ratio is 10% or 15%. To qualify for the Achievement Sharing reward, the project must first maximize profitability, as profit is the prerequisite for the reward. Additionally, to reduce annualized capital costs, the use of its own capital should be minimized, and the duration of its occupation should be kept as short as possible.

As of March 2014, a total of 117 projects participated in the plan, of which 49 met the incentive conditions, while 68 did not. According to the annual report, a stock option plan launched in April 2017 allowed for the issuance of up to 2.1 billion shares, representing 10% of the total outstanding shares. Senior executives were granted stock options in proportion to their roles and responsibilities. The Achievement Sharing incentive plan is like the Economic Value Added (EVA) performance evaluation method. Since its implementation, the plan has brought about several positive outcomes, including a shortened project operation cycle, improved asset turnover rate, and more proactive management of costs and expenses, which in turn has led to increased profit margins.

In addition to above 'Achievement Sharing' incentive plan, in the year of 2014, Country Garden Group introduced the 'United Sharing' Partnership System, aligning employee interests with corporate goals. This system applies to all projects developed and invested in by Country Garden. The incentive plan targets senior executives at the headquarters and regional levels, including directors, vice presidents, assistant vice presidents, department heads, and general managers, as well as regional presidents and general managers in charge of investment, marketing, finance, and projects. The system requires each project to establish a project company for investment, with the publicly listed parent company holding at least 85% of the shares. Senior executives at both headquarters and regional levels are required to establish

headquarters and regional investment entities, holding no more than 5% and 10% equity, respectively. Regional executives generally have a higher investment share.

As of December 2016, a total of 583 projects had participated in the "United Sharing" co-investment plan, with total sales amounting to RMB 261.2 billion (EUR 32.65 billion approximately). The average net profit margin for projects under this plan was estimated at 12%, compared to 10% for other projects. Additionally, the average payback period for net project cash flow was projected to be 8.4 months, considerably shorter than the 12 months observed for other projects. With the introduction of the United Sharing incentive plan, both the enterprise and its core management team shared in the investment and associated risks. This alignment of interests led to more rational investment decisions, allowing the parent company to confidently acquire land and develop projects, thereby enabling rapid business expansion.

Given the long development cycle of real estate projects, Country Garden saw rapid revenue growth and a continuous rise in its industry ranking 2-3 years after implementing the two incentive plans. While an enterprise's success can be attributed to multiple factors, such as precise market positioning, active capital market financing, and a "high turnover" business model, a well-structured management incentive system undoubtedly plays a central role in driving these outcomes under the same conditions.

However, the management of the subsidiary Country Garden Service lacks the corresponding equity incentive instrument. Unlike traditional bonus incentives, equity incentives can better align the long-term interests of the enterprise and its employees. This alignment not only facilitates proactive scale expansion, reduces investment risks in mergers and acquisitions, optimizes operational cost control, and enhances investment returns, but also strengthens employees' connection to Country Garden's family-oriented culture, fostering shared growth and development within the enterprise.

Real estate development projects are capital-intensive and have long cycles, with both high risks and high returns. They require a broad and strong incentive system, covering senior executives at the headquarters and regional levels, as well as key project members. Incentives include performance-based bonuses under the Achievement Sharing plan and investment returns under the United Sharing plan. Property management projects are characterized by one-time acquisitions, high customer loyalty, and stable, continuous cash flow. Owned projects require no investment, while mergers and acquisitions require a large one-time investment. As a result, the incentive system focuses on senior management.

Before its spin-off, the Country Garden Services lacked equity incentives, with its senior management's income primarily derived from salary, without stock options commonly offered

by listed companies. A comparison of the senior management income structure in 2017 clearly illustrates the impact of the spin-off on management incentives. As a listed company, Country Garden provided a compensation package that included salary, bonuses, and share-based payments. In contrast, Country Garden Services, which had not yet gone public in 2017, relied almost entirely on salary, with no bonuses or share-based payments. The total income of the president of Country Garden was six times that of the president of Country Garden Services, and the income gap for vice presidents was more than 10 to 20 times (refer to Table 4.6).

Table 4.6 Comparison of senior management income (2017) (Unit: RMB 1,000)

Name	Employer	Position	Salary	Bonus	Share-based payments	Social security	Total
Mo Bin	Country Garden	Executive director	6,000	27,828	/	67	33,895
Yang Zhicheng			4,000	18,155	5,075	43	27,273
Song Jun			4,000	31,945	5,670	86	41,701
Su Boyuan			4,000	37,836	1,188	12	43,036
Li Changjiang	Country Garden Services	Executive director	5,580	/	/	34	5,614
Xiao Hua			2,040	/	/	24	2,064
Guo Zhanjun			750	/	/	11	761

The core team at Country Garden Services is generally young and highly experienced, with many long-serving members. After the spin-off, Country Garden, the parent company, appointed three executives as non-executive directors and brought in two key external executives: the Chief Financial Officer and Chief Strategy Officer. To retain the value of long-serving employees and attract key external talent, it is evident that suitable incentive tools are urgently needed.

Before the spin-off, the establishment of Country Garden Services was primarily aimed at facilitating the sales of real estate development projects, with very limited expansion into third-party property management projects. In 2017, 92% of Country Garden Services' revenue came from Country Garden, while only 8% came from third-party external projects. In terms of internal management, it operated as a cost center for performance accounting, without adopting the business development or performance evaluation standards of either an investment center or profit center. To drive the rapid development of the property management subsidiary, independently secure third-party projects, and achieve scale expansion and profit growth, it is essential to update and enhance the incentive system.

The successful implementation of incentive systems in the parent company's real estate projects has underscored the importance of such policies in driving business operations. This has prompted senior management at Country Garden to recognize the critical role of incentive policies. Given the distinct operational characteristics of the parent and subsidiary companies, property management requires a differentiated incentive approach. Therefore, the spin-off and independent listing of the subsidiary, along with the introduction of its own equity incentive tools, has become a key consideration for Country Garden. When a parent company spins its subsidiary off as an independent entity, it facilitates the implementation of equity incentive programs for the subsidiary's management. This ties the earnings of the management to the stock value of the independent company, thus achieving the goal of incentivizing the management.

4.3 Focus on core businesses

4.3.1 Comparison of business characteristics between parent and subsidiary enterprises

Diversified enterprises are usually large and span various areas, which can help companies withstand certain operational risks. However, expansion of business makes the organizational structure more complex, reducing operating efficiency. Under this development mode, the business characteristics, stage and business model of each division are quite different, which is easy to cause mutual restrictions of each section, thus reducing enterprise value. By the end of 2017, prior to the spin-off, while Country Garden primarily focuses on real estate industry, it has actively expanded into diversified sectors such as property management, construction installation and decoration. Real estate revenue accounted for 97.03%, while property management revenue accounted for only 1.17%. Further, according to its 2021 financial report, the real estate, robotics, and modern agriculture sectors are becoming the "three pillars" supporting the growth.

The complete real estate operational cycle consists of two main stages: incremental development and asset management of existing properties, each with distinct operational characteristics and cash flow dynamics. The incremental development stage encompasses land acquisition, construction, pre-sale, and completion. Typically, it takes about one year from land acquisition to pre-sale. During this period, companies need to invest significant capital into the development process. From the pre-sale to settlement upon completion, an additional 1-2 years is required. During this phase, cash flow begins to gradually return as payments for homes are

received. In contrast, the asset management of existing properties stage focuses on property management and transactions, generating a steady stream of revenue from property fees, rents, and occasional income from asset disposals. No further cash investment is necessary at this stage.

The positioning of a real estate enterprise forms the foundation of its business strategy, with companies now adopting a diverse range of positioning. Different product positioning significantly impacts their operational turnover strategies, leverage tactics, and other key approaches. For instance, Country Garden is positioned as a "high-tech, comprehensive enterprise that creates beautiful life products for the world." Its products are characterized by low average prices and large scale, mainly targeting the affordable housing market in lower-tier cities. This results in faster turnover but relatively lower profit margins. In contrast, under a strategy focused on high-end positioning, Tahoe offers products with higher average prices and larger scale, concentrating on premium flagship projects. These products generate higher profit margins but have slower turnover. China Fortune Land Development is positioned as "China's leading real estate investment, development, and operations management platform in core metropolitan areas." It actively implements a first- and second-tier city linkage strategy for land acquisition. China Merchants Shekou, positioned as a "comprehensive urban and park development and operations service provider in China," takes a diversified and holistic approach to planning across three major industries: industrial parks, cities, and ports. This strategy of using industry to drive real estate operations leads to relatively slower turnover. Powerlong Real Estate, focused on commercial real estate, adopts a "real estate + commercial dual-wheel drive" model, leveraging the synergies of a diversified approach to its business strategy.

Business strategy is the fundamental guarantee of profitability. From an ROE perspective, real estate developers' strategies can be categorized into high profitability, fast turnover, and high leverage. Each of these strategies can be implemented through various approaches, depending on the policy environment and market conditions. To improve profitability, companies focus on controlling costs, increasing land value, and enhancing brand competitiveness. Once land is acquired, developers aim to quickly start construction, accelerate sales, and shorten the cycle between land acquisition and fund recovery, improving asset turnover. Additionally, by leveraging financial, operational, and partnership leverage, developers optimize the use of their capital. Large private real estate developers like Country Garden, aiming to maximize return on equity (ROE), typically adopt a "low profit, high turnover, high leverage" profit model. The fast turnover strategy involves quickly starting

construction and sales after land acquisition, shortening the cycle between acquisition and cash recovery to enhance asset turnover and improve capital returns. This strategy is a development approach adopted to drive rapid growth through expansion. Key tactics include shortening construction timelines and increasing sales absorption speed. A prime example of this strategy is the "456 model," where sales are launched four months after land acquisition, funds are recovered within five months, and reinvestment occurs within six months. The first key element of this strategy is advanced preparation, rapid commencement, and shortening construction periods. Tasks such as land survey, planning design, and selection of foundation contractors are largely completed before land acquisition. The day after the land is acquired, the general contractor is confirmed, and construction begins, with foundation work completed within half a month. The second key element is the development of a standardized product system. This includes establishing standard modules for the layout, decoration, and landscaping, as well as processes for cost management, procurement, and acceptance, minimizing the time needed for custom design from scratch.

Under this business model, real estate developers can typically recover their investment within a year, enabling them to reinvest the recovered funds into new projects. This cycle of rapid reinvestment accelerates performance growth and boosts the return on investment. As shown in Table A4.12 in the Annex, even with a project profit margin of only 5%, financial leverage can still generate a 33% return on equity.

Property management refers to the activities in which property owners hire property service companies to maintain, repair, and manage buildings, facilities, equipment, and related areas. These activities are carried out in accordance with the terms outlined in the property service contract. This includes ensuring the cleanliness, maintenance, and orderliness within the property management area. Properties can be categorized based on their functional use into residential, commercial, industrial, and public properties. Residential properties include houses, apartments, and villas; commercial properties encompass mixed-use buildings, office buildings, shopping centers, and hotels; industrial properties comprise factory buildings, research and development spaces, and warehouses; and public properties include stations, airports, hospitals, and schools.

Property management can be divided into two main business segments: basic property services and value-added services. The former includes standardized offerings such as security, cleaning, landscaping, and equipment maintenance. The latter is further categorized into services for property owners and no-property owners (see Figure A4.5 in the Annex). Services for property owners includes home services, e-commerce services, community finance,

community education, and property asset management. And services for non-property owners covers sales office services, new project sales agency, advertising, and consulting.

Property service companies inherently attract a strong customer base and control significant community traffic, providing them with a unique advantage in developing community services. These companies mainly expand their value-added services by focusing on housing assets, community public operations, and social relationships within the community. While the range of value-added services is still being explored, the future holds considerable potential for growth. The property management industry is shifting from a single operational model to a diversified approach. With access to community resources, property management companies are better positioned to understand and meet the demand for value-added services, enabling them to evolve from basic property service providers into comprehensive community life service providers.

Outstanding property service companies are transforming into platform-based enterprises, becoming platforms centered around property management and community services. Building on this property platform, they are creating a "1+N" diversified structure. Property management alone is a trillion-dollar market, and community value-added services also hold immense potential. "1" represents the core property management services, while "N" involves integrating and incubating one or two value-added services within the platform. The objective is to refine and perfect these services, elevating them to excellence, and ultimately establishing a sustainable and profitable business model (see Table A4.13 in the Annex).

To sum up, the business characteristics of the parent and subsidiary business lines exist significant differences (see Table 4.7). The real estate development sector is characterized by "heavy assets, high leverage, high risk, and high returns," relying on market cycle management and capital operation. In contrast, property management services are defined by "light assets, stable cash flow, and high customer retention," emphasizing refined operations, long-term customer relationships, and a strong focus on customer satisfaction.

Table 4.7 Differences in business characteristics between property management services and real estate development

Item	Category	Property Management Services	Real Estate Development
1	Customer type	Household purchaser's vs enterprise developers	Primarily retail buyers
2	Demand nature	Recurring services (high frequency)	Infrequent purchases per client

Item	Category	Property Management Services	Real Estate Development
3	Unit revenue	Low (area-based monthly fees)	High (millions per transaction)
4	Customer retention	Long-term contracts (renewal-driven)	One-off transactions (low repeats)
5	Revenue model	Stable recurring cash flow	Lump-sum income
6	Revenue volatility	Highly resilient to economic cycles	Highly sensitive to policy shifts and market cycles
7	Cost structure	Labor-intensive (60%+ on staffing, outsourcing & maintenance)	Capital-intensive (Land: 40%+, Construction: 30%+, high financing costs)
8	Labor productivity	High front line staff ratio, e.g., security/cleaning	Core technical team concentration, e.g. investment/design/engineering
9	Technology role	Human-centric with smart aids (e.g., IoT for maintenance)	Digital-native processes (e.g., BIM, AI-powered design)
10	Key success factors	Service quality, customer satisfaction, cost control and economies of scale	Market positioning, land acquisition, product design, financing access, cost control and efficient operation

Considering these substantial disparities, the spin-off listing of the emerging business segment enable the board of directors and senior management team to operate independently. This allows for more targeted growth strategies and operational measures tailored to each business.

4.3.2 Growth pathways for property management business

In the competitive landscape of the real estate development industry, Country Garden has emerged as a leader. Its operating revenue grew from RMB 18 billion (EUR 2.25 billion approximately) at the time of its listing in 2007 to RMB 379 billion (EUR 47.375 billion approximately) in 2018, representing a 21-fold increase over twelve years, propelling it to the top rank in the industry. The key factors behind Country Garden's impressive performance growth are summarized. First, Product line layout in third- and fourth-tier cities. It held a competitive edge and avoided the intense competition in first- and second-tier cities. Second, a "high turnover" business model adopted. It quickly acquired land, developed properties, and achieved rapid sales and capital recovery, enabling it to seize market opportunities and monetize them quickly. Third, financing is active in capital market. It effectively utilized market

financing to fuel its expansion. In 2018, financing through capital markets reached RMB 357 billion, supplier financing totaled RMB 498.8 billion, and customer advances amounted to RMB 562.8 billion, adding up to a total of RMB 1.4186 trillion. Last, incentive systems are effective. It implemented equity-based incentive plans such as "United Sharing" and "Achievement Sharing", motivating its entire team.

But can the success of real estate development be replicated in property management services? Can internal incubation of property management businesses, without opting for a spin-off, lead to significant growth in performance? What are the current resource endowments, and can the company seize the growth opportunities within the industry?

From the perspective of business growth pathways, several strategies are employed, securing new projects from the parent company's affiliated firms, leveraging brand power for organic growth, fostering deep growth through value-added services and expanding through acquisitions. With the support of the parent company's real estate development business, priority is given to securing new projects from affiliated companies. The brand's competitive advantage is also leveraged to acquire third-party projects. Capital strengths facilitate rapid expansion through acquisitions of small- to medium-sized property management projects, while value-added services incubate new business models that capture community traffic, fostering emerging growth drivers.

The strength of the parent company's real estate development business serves as a crucial support for the property management company's growth. Among the top 100 property management companies, 73.5% have a real estate development background. Property service companies backed by large developers are more likely to secure additional projects. As the managed area increases, cash flow becomes more abundant, which facilitates further expansion. Larger projects reduce unit costs and improve profit margins, resulting in significant economies of scale.

The number of large-scale projects undertaken by the top 100 property management companies has been steadily increasing, leading to moderate economies of scale. In 2017, the number of projects ranging from 500,000 to 1,000,000 sq.m., as well as those exceeding 1 million sq.m., amounted to 1,596 and 285, respectively, marking increases of 11.37% and 10.04% compared to 2016. Once a project reaches a certain size, it benefits from standardized, automated, and intelligent technologies that help control costs and enhance operational efficiency. The population concentration advantage of large projects creates a demand for value-added services, unlocking further growth potential in community-based business. By the end of 2017, Country Garden Services managed 71 projects each exceeding 500,000 sq.m.

Geographical diversification and expansion into untapped markets have become key components of the strategies for industry-leading companies. Core cities have emerged as the focal point for regional expansion, with the five major core city clusters accounting for 61% of the managed area among the top 100 companies in the industry in 2017. Leveraging Country Garden's intrinsic advantages in real estate development, Country Garden Services has built an extensive property management portfolio, covering both domestic and international markets. By December 2018, Country Garden Services managed projects across 31 provinces, over 280 cities in China, and internationally in Malaysia.

Multiple business formats operate concurrently, with a balanced development approach between residential and non-residential properties. Non-residential properties, due to their higher profitability and superior project quality, have become an increasingly important focus. The average property management fees for commercial and public building projects are significantly higher than those for residential properties. For example, office buildings, commercial spaces, hospitals, and similar properties charge an average of 8 RMB per sq.m. per month, while residential properties typically have an average fee of only around 2 RMB per square meter sq.m. Additionally, non-residential property owners, typically B2B clients, generally exhibit higher fee collection rates compared to residential property owners.

Before its spin-off, Country Garden Services' revenue was heavily reliant on Country Garden, with more than 90% of its income stemming from the parent company. While this proportion slightly decreased in 2018, it remained at 89% (see Table 4.8). Given the already high revenue share from the parent company's projects, the growth potential from this channel is limited, highlighting the necessity of expanding into other revenue streams.

Table 4.8 Revenue sources and proportions of Country Garden Services (Before spin-off) (Unit: RMB 1,000,000)

Revenue source and proportion	2015	Proportion	2016	Proportion	2017	Proportion	2018	Proportion
Property management services from Country Garden	1,383	96%	1,875	96%	2,349	92%	3,054	89%
Property management services from independent third parties	50	4%	82	4%	196	8%	391	11%
Total	1,434	100%	1,957	100%	2,545	100%	3,445	100%

By leveraging its brand advantages, Country Garden Services can expand into third-party projects. Leading property service companies are better positioned to benefit from brand premiums and enjoy higher brand preference. The competitive landscape, previously characterized by a "large industry with small leaders," is gradually shifting towards a "large industry with large leaders." Companies with both strong brand influence and significant

expansion capabilities stand to gain dual growth dividends from industry development and increased market share. Among the major property management companies listed on the HKEX, Greentown Service stands out as a prime example of leveraging brand advantages to expand into third-party projects. Now, Greentown Service (02869.HK) managed a total area of 170 million sq.m., significantly reducing its dependence on its affiliated real estate developer, Greentown China (03900.HK). By 2018, over 90% of Greentown Service's (02869.HK) contract-based managed area came from third-party projects. Compared to existing projects, new ones typically offer more flexible property management fee structures and higher profit potential. By the end of 2018, Greentown Service ranked first among the 13 property management companies listed on the HKEX, with an operating revenue of RMB 6.715 billion.

The business model for value-added services has become increasingly mature and scalable, with an expanding range of services and offerings, allowing for the multi-dimensional exploration of added value in community operations. The community O2O (Online-to-Offline) service model is widely adopted by property management companies. These companies utilize self-developed apps to offer various O2O services to residents, such as housekeeping, maintenance, and more, while also running e-commerce platforms to sell products. In addition to providing value-added services to property owners, large-scale property management companies also offer consulting services to developers, including pre-sale property consultation and sales center management. Value-added services have become a key revenue driver for leading companies in the industry. By leveraging their own resources or empowering partnerships, these companies are increasingly capitalizing on the flow value embedded within the communities they manage through innovative business models. For Country Garden Services, revenue from community value-added services increased from 7.31% of total revenue in 2015 to 8.92% in 2018. At the same time, revenue from non-property owner value-added services saw a significant rise, growing from 6.55% in 2015 to 16.92% in 2018, with the value-added services reaching 25.84% (see Table A4.14 in the Annex).

While new projects from the parent company are constrained by development capabilities, expanding third-party projects through brand advantages is limited by existing service contracts, requiring time to secure new opportunities. To overcome these challenges, acquiring existing projects offers a faster path to scale. Colour Life, a property management company listed on the stock exchange, has been a pioneer in using acquisitions to expand its scale. In 2015, it acquired Shenzhen Kaiyuan International Property Management Co., Ltd. for RMB 330 million, and in 2017, it acquired Wanxiangmei Property Management Co., Ltd. for RMB 2 billion, setting new acquisition records in the property management industry.

In summary, beyond relying on new projects from affiliated companies under the parent company, key drivers of performance growth include the third-party project expansion leveraging brand influence, deepening value-added service offerings and external expansion through mergers and acquisitions. The spin-off listing of the property management segment have been instrumental in securing ample funding resources, enabling independent operations for the board and senior management, and implementing aligned incentive mechanisms—all of which are critical to executing the aforementioned growth strategies.

4.3.3 The business strategies and core competitiveness of property management

The key success factors of property management and real estate industry are quite different. Property management focuses on service quality, customer satisfaction, cost control and scale effect, while the real estate industry focuses on market positioning, land acquisition, product design, financing ability, cost control and efficient operation. In order to succeed in different industries, companies need to match the allocation of resources, management skills, and corporate culture. After the spin-off, the parent and subsidiary companies have independent cash flow, different management and corresponding team culture, and focus more on their core businesses, which helps improve the success probability of the business.

The property management industry remains highly labor-intensive, with disruptive innovation being difficult to achieve due to the nature of competitive factors. As such, leading companies play a pivotal role in driving industry consolidation and development. By leveraging strengths such as resource endowments, brand appeal and management efficiency, these companies can scale their operations, diversify their business models, and enhance profitability. As a result, they have become significant beneficiaries of broader industry trends. Leading companies gain a significant competitive advantage through factors such as the strength of their parent company, brand power, operational systems, management teams, and financial resources. With its robust capital strength, Country Garden is poised to become an industry leader.

The high profitability of value-added services has significantly boosted the performance. Companies with a larger share of revenue from value-added services tend to achieve higher profit margins. According to 2018 data, A-Living Smart City Services generated 52% of its revenue from these services, while other companies ranged from 6% to 38%. Country Garden Services reported 25.8% of revenue from VAS. Among value-added services, community value-added services generally have higher gross margins compared to non-property owner services. For example, Country Garden Services, A-Living Smart City Services, and S-Enjoy Service reported gross margins of 66%, 51%, and 63%, respectively, for community services,

which were significantly higher than the 48%, 48%, and 22% margins for non-property owner services.

Service quality drives brand value. Brand strength is fundamental to bargaining power and business expansion in the industry, and it is primarily built on service quality and content. Customer satisfaction is a direct reflection of perceived service quality, and superior service quality enables companies to increase their prices. As consumer expectations evolve, customers are increasingly willing to pay for high-quality services. The ease with which property companies can raise prices often indicates the acceptability of their service quality. Improved satisfaction leads to greater customer loyalty, resulting in higher collection rates and better renewal rates.

A robust operational management system ensures a company's profitability and serves as the foundation for business expansion. It integrates the company's intrinsic competitiveness and directly influences operational efficiency. Key factors include the maturity of the project operation system and the productivity of middle management teams. The project operation system is primarily evaluated based on its level of services standard and information system, while team development focuses on the training system and the depth of talent reserves.

Operational capacity typically refers to employee management efficiency, often measured by per capita managed area. Leading property management companies have a significant advantage in this regard. In 2018, the smallest per capita managed area was 6,634 sq.m. per person (Ever Sunshine Lifestyle Services), while the largest was 8,492 sq.m. per person (S-Enjoy Service) and Country Garden Services reported 5,400 sqm/person. The advantage in operational capacity stems from a comprehensive management system, a powerful control headquarters, continuous investment in technology and smart R&D, and economies of scale created by project density.

By standardizing services to ensure consistent, high-quality offerings across different regions, property service companies can enhance service quality and improve overall property owner satisfaction. Emphasizing the efficient utilization of resources—such as capital, materials, labor, and information—boosts financial management and supports refined operations. Furthermore, the integration of advanced and optimized information technology improves service efficiency, reduces reliance on human labor, cuts costs, and maximizes profitability.

As professional property managers, property service companies are leveraging modern technologies such as CRM, SAAS, and ERP systems to establish foundational service control systems, standardized service frameworks, and enhanced management structures. These

technologies improve service efficiency, strengthen control capabilities, and reduce management costs. According to data from the China Index Academy, investment in this area by the top 100 companies grew from RMB 922,000 in 2012 to RMB 7.162 million in 2017, reflecting a CAGR of 50.7%. Property service companies are actively integrating smart technology, such as smart lockers, unmanned cleaning vehicles, and surveillance systems, to automate basic services. Investments in intelligent upgrades, including the mechanization, informatization, and automation of facilities and equipment, are helping to reduce costs. For instance, installing a smart access control system, costing RMB 100,000, can replace three security guards, each with an annual salary of RMB 50,000 to 60,000, resulting in significant cost savings. By combining online and offline information with smart technology, leading property companies enhance service quality and overall customer experience. As of 2017, the leading companies in the industry were at the forefront of exploring smart technologies, with all of the top 10 property companies having their own mobile apps, and 49% of companies ranked 51-100 also having developed their own apps.

The strength of middle management teams and their ability to cultivate talent are key factors determining the pace of expansion for property management companies. A stable, experienced management team, along with employees' career development, are priorities for all property service companies. By implementing a comprehensive human resources management system and using various methods to train, develop, and motivate talent, companies build a unique talent advantage that strengthens their market position. Leading companies typically implement comprehensive training systems, including onboarding, mentorship, skills development, and rotational training, to ensure the productivity of middle management. They also maintain a strong talent pool. During rapid expansion, these advantages help ensure stable and consistent service quality while enabling effective project integration. The ability to replicate middle management teams, supported by highly standardized services and centralized core functions, allows companies to replicate high-quality service and successfully expand into new regions.

Labor costs are the largest expense. The property management industry is labor-intensive, with personnel costs representing more than 50% of operating expenses, making it the largest cost category. As local minimum wage standards continue to rise and the demographic dividend gradually fades, overall labor costs are increasing. In 2018, Country Garden Services reported total service costs of approximately RMB 2,913.7 million, of which employee costs accounted for RMB 2,433.8 million, representing 83% of the total. Moderate outsourcing can effectively reduce fixed costs and improve cost efficiency. It enhances resource utilization while allowing property service companies to leverage specialized third-party services, thereby elevating

overall service quality. Key outsourced services include security, cleaning, landscaping, and maintenance.

The profitability of property management services fundamentally depends on two critical drivers: strategic expansion of value-added services (VAS) revenue contribution and effective labor cost optimization. To build sustainable competitive advantage and enhance margin performance, companies must implement comprehensive operational improvements including targeted VAS portfolio growth, brand value enhancement, the development of robust management systems, service quality enhancement through standardization, deployment of intelligent property management technologies, and strategic talent investment.

The foregoing discussion delineates key distinctions in the business characteristics between parent and subsidiary enterprises, outlines the growth pathways for property management business, and examines the business strategies and core competitiveness of property management. Within the extant academic literature, “Focus on core businesses” is frequently cited as a primary rationale underlying corporate spin-offs. Conceptually, such structural separation enables the parent company to concentrate resources on its strategic core business and thereby enhance operational specialization. And also it allows the spun-off entity to optimize resource allocation in alignment with its distinct growth stage and strategic priorities, thereby accelerate the development of its own competitive advantages. However, evidence from China’s real estate sector, where numerous developers have spun off their property management arms, calls this conventional interpretation into question.

As stated in Section 4.2.1, Country Garden Group initiated the spin-off and listing of Country Garden Services in 2018. Concurrently, it established and invested in Bright Dream Robotics and Country Garden Agriculture. Further, in the first year after the spin-off, Country Garden Group launched investments in robot catering business. Far from retreating from diversification, Country Garden Group pursued an actively expanding multi-sector strategy during this period.

Furthermore, as elaborated in Section 5.2.1, the suspension of investment in Bright Dream Robotics, Country Garden Agriculture and robot catering business was not driven by a deliberate strategic focusing on core real estate operations; rather, it resulted directly from the parent company’s deteriorating financial condition and liquidity constraints.

Collectively, the analysis suggests that, when the China real estate industry spun off property management services, “Focus on core businesses” is not the underlying motivation, but the objective consequence after the spin-off.

[This page is deliberately left blank.]

Chapter 5: Evaluation of the Economic Consequences of Country Garden's Spin-off Listing

5.1 Performance in the capital market

5.1.1 Stock valuation

Stock valuation theory has developed into a logically rigorous and complete system, in which stock value is assessed from two perspectives: absolute valuation and relative valuation. The absolute valuation method includes the Dividend Discount Model (DDM) and the Discounted Cash Flow Model (DCF). Although the logical framework of absolute valuation is relatively sound, its application in practice is challenging due to the strong subjectivity of parameters such as cash flow data and discount rates. The relative valuation method, including the Price Earnings Ratio (P/E) and the Price-to-Book Ratio (P/B), measures the value of a target asset with reference to comparable assets. The key to relative valuation lies in comparability, which requires that the peer companies selected share similar industry attributes, life cycle stages, and macroeconomic conditions. Considering data availability, this study adopts the relative valuation method.

The property management industry is characterized by light assets, weak cyclicality, and stable cash flows. Its core value lies in user scale, service stickiness, and value-added potential, making the P/E ratio a more appropriate measure. In contrast, real estate development businesses are defined by heavy assets, strong cyclicality, and project-based operations, which makes the P/B ratio more suitable. As this thesis focuses on the economic consequences of spin-off listings for Country Garden's subsidiary, Country Garden Services, which belongs to the property management industry, the P/E ratio is selected. The P/E ratio refers to the ratio of stock price to earnings per share (EPS).

In Chapter 5, the data sample for spin-off property management companies consists of 26 such firms. For comparison, the parent groups of these 26 spin-off companies serve as the sample for real estate developers. In addition, six real estate companies that did not pursue spin-off listings—Longfor Group, Gemdale Group, Yuzhou Group, China SCE Group, Joy City, and Redco Group—are included as a control group, since they separately disclose the operating

performance of their property management segments, which provides comparable data. When comparing property management companies with real estate developers, the differences in operating income and asset scale are substantial. Therefore, the median rather than the mean serves as the more appropriate benchmark for comparison.

Refer to Table 5.1, compared with its parent company, Country Garden Group, the P/E ratio of Country Garden Services was seven times higher in the year of the spin-off listing, widened to eleven times higher in the second year, and then the gap began to narrow. Compared with the real estate development industry, the P/E ratio of the property management industry in the year of spin-off listing was nearly six times higher, and remained consistently higher in subsequent years.

Table 5.1 Comparison of P/E ratio trends

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	/	/	5.82	7.66	10.33
-2	/	/	8.23	7.46	10.87
-1	/	/	20.19	6.73	9.27
0	39.09	35.38	5.52	5.95	5.55
1	49.33	21.20	6.43	4.56	8.79
2	64.78	9.76	5.67	4.29	8.39
3	37.54	6.53	3.71	1.43	4.39
4	12.47	5.50	5.08	-0.03	3.35
5	12.10	7.19	-0.36	-0.01	1.51
6	-27.23	-0.70	-0.23	-0.06	-0.22

For companies without spin-off listings, P/E ratios remained generally stable, showing some increase during the process but eventually declining. In the year of the spin-off, the P/E ratio of property management companies averaged 39.09, far exceeding the 5.55 of non-spin-off companies. Although it declined year by year, it still maintained a valuation premium of 8–10 times. Starting from the third year after the spin-off, the market valuation logic underwent a fundamental change: the P/E ratio of spin-off companies fell rapidly from 37.54 to 12.47, while that of non-spin-off companies simultaneously dropped from 4.39 to 1.51. By the sixth year after the spin-off, both spin-off and non-spin-off companies recorded negative values. Overall, spin-off companies consistently enjoyed a valuation premium.

Refer to Table A5.1 in the Annex, the P/E ratios of Country Garden Services and the property management industry show a significant pattern of “expand first and then converge” after the spin-off listing. From the year of spin-off to the second year, Country Garden Services’ P/E ratio rose steadily to a peak, then began to decline, turning negative in the sixth year. For the property management industry, the P/E ratio was the highest in the year of spin-off and then stabilized over time, also turning negative in the sixth year.

In the spin-off year (2018), the P/E ratio of Country Garden Services reached 39.09, 1.1 times the industry median of 35.38. In the first-year post spin-off, it was 2.3 times (49.33 vs. 21.20), and in the second year 6.6 times (64.78 vs. 9.76). Starting from the third-year post spin-off, the trend reversed. The P/E ratio of Country Garden Services dropped sharply from 37.54 to 12.47 in the fourth year (industry: 6.53 → 5.50), further approaching the industry level in the fifth year (12.10 vs. 7.19). By the sixth year, the P/E ratio of Country Garden Services fell to -27.23, its first negative value and significantly lower than the industry mean of -0.70. The mean P/E ratio of property management companies shows a continuous downward trend after spin-off listings, from 45.83 times in the listing year to 2.52 times in the sixth year. The median P/E ratio also fell from 35.38 times to -0.70 times.

The SD of P/E ratios fluctuated, indicating differentiation in valuations across companies. In the spin-off year, the SD reached 35.19, with a minimum P/E ratio of 4.17 and a maximum of 146.60. The SD decreased in the first year but surged again in the second year (28.28), with a maximum P/E ratio of 64.78 and a minimum of -103.15. Afterwards, the SD gradually declined, but spiked again in the sixth year.

Refer to Table A5.2 in the Annex, for the real estate development industry as a whole, P/E ratios show a declining trend. The median dropped from 7.66 times to -0.06 times, and the mean from 22.28 times to 1.96 times. SD was relatively stable except for the third year before spin-off (-3) and the second year after spin-off (2), when it was higher. This indicates that overall valuations in the real estate development industry have been in decline.

After spin-off listing, the information asymmetry is eliminated, and the property management business of the subsidiary obtains the opportunity of value revaluation. The high valuation in the early stage of spin-off listing is driven by the dual premium of expected scale growth and the potential for value appreciation from merger and acquisition projects. In essence, financing capability reflects the market's recognition of the business model. The high fundraising ability of Country Garden Services essentially represents capital market endorsement of its "scale expansion + value realization" model. The immediate driver was high P/E valuations (40–60 times) that significantly lowered equity financing costs, making large-scale fundraising feasible. In the short term, valuation was driven by EPS accretion from M&A projects; in the long term, by economies of scale and penetration of value-added services.

First, the capitalization of M&A expansion, with financing clearly directed toward M&A projects, played a key role. For example, 80% of the HKD 15.5 billion raised by Country Garden Services in 2021 was allocated to potential M&A projects. The market expected such M&A projects to bring leaps in managed GFA (e.g., acquisitions of seven companies including

Justbon and R&F Property Services in 2021, adding 450 million m2, with M&A contributing 72.6%). Profit accretion was also expected, such as the acquisition of Link Joy, estimated to increase 2022 net profit by 5%. With primary market M&A P/E at 10–14 times versus secondary market valuations above 40 times, a huge arbitrage opportunity existed. Second, the asset-light model and cash flow stability contributed to a valuation premium. The property management sector is viewed as counter-cyclical, with asset-light attributes, prepayment models, and community value-added services supporting higher valuations. For example, Country Garden Services' operating cash flow reached RMB 4.6 billion in 2020 (up 38.9%), with cash reserves exceeding RMB 21.7 billion, underpinning continued M&A capacity. Finally, profitability certainty under economies of scale was established, and organic growth was likewise recognized. Between 2019–2021, Country Garden Services achieved revenue CAGR over 50%. The share of third-party projects rose from 30% to 45%, and value-added services exceeded 15% of revenue. The market expected its scale advantage (largest managed GFA in the sector) to translate into cost-sharing efficiency (lower back-office expense ratios) and pricing power (brand premium). For instance, in 2021 its gross profit margin stayed at 24.8%, above industry mean.

5.1.2 Financing capacity and capital structure

Before the spin-off, the original shareholding structure is shown in Figure A5.1 in the Annex. In preparation for the listing, Country Garden restructured and established Country Garden Services Group through steps such as registering a new company, share transfers, acquisitions, and capital increases. After Country Garden implemented the share distribution and the listing of Country Garden Services, Country Garden Services was no longer a subsidiary of Country Garden. Instead, Ms. Yang Huiyan became the controlling shareholder of Country Garden Services, and subsidiaries such as Jiyu, Country Garden Property Hong Kong, and Country Garden Property Services became part of Country Garden Services. The shareholding structure after the spin-off is shown in Figure A5.2 in the Annex.

In equity financing, Country Garden Services was listed in 2018 by way of introduction, without raising any funds. Similarly, China Overseas Property Management and C&D Property Management also went public via introduction without financing. However, in the years following their listings, they seized favorable market timing and achieved substantial financing results. Refer to Table 5.2, between 2019 and 2021, Country Garden Services carried out five seasoned equity offerings (SEOs), raising a total of HKD 32,094 million. Notably, in 2021, it conducted three financings, with higher frequency and larger amounts. The company

successfully captured the best financing windows, with 26% of the total proceeds raised in that year alone. From 2014 to 2024, the 26 spin-off listed companies raised a total of HKD 123,941 million through equity financing. Among them, Evergrande Property Services and China Resources Mixc Lifestyle, both listed in 2020, ranked second and third with HKD 14,270 million and HKD 14,105 million raised, respectively. Together with Country Garden Services, the three companies accounted for nearly 49% of the total.

Table 5.2 Equity financing of Country Garden Services after spin-off listing

Date	Instrument	Amount (HKD mn)	Amount (RMB mn)	Pricing
2019.01	SEO (private placement)	1,943	1,679	HKD 11.61 per share
2020.12	SEO (private placement)	7,785	6,526	HKD 45.00 per share
2021.05	SEO (private placement)	10,488	8,538	HKD 75.25 per share
2021.05	Convertible bond swap	3,875	3,338	HKD 39.68 per share
2021.11	SEO (private placement)	8,003	6,562	HKD 53.35 per share
	Total	32,094	26,664	

Country Garden Group, which engages in property development, mainly relied on debt financing during 2018–2021, supplemented by equity financing. For external equity financing, it raised HKD 7,879 million in 2018 (HKD 17.13 per share), HKD 11,554 million in 2022 (HKD 3.25, 2.68, and 2.70 per share), and HKD 270 million in 2023 (HKD 0.77 per share). The share placements in 2022–2023 took place during a financial crisis and were priced very low. Internal equity financing was mainly through employee stock option exercises, with relatively small amounts.

In convertible bond financing, refer to Table 5.3, in April 2020, Country Garden Services issued HKD 3,875 million of convertible bonds, maturing in May 2021, with an initial conversion price of HKD 39.68 per share and an effective interest rate of 4.99%, guaranteed by Country Garden Services. Thanks to the continuous rise in share price, the bonds were fully converted into equity in 2021. In May 2021, it issued another HKD 5,038 million of convertible bonds, maturing in June 2022, with an initial conversion price of HKD 97.83 per share and an effective interest rate of 3.10%, also guaranteed by the company. However, after peaking in June 2021, the share price declined steadily, and the bonds were fully redeemed and canceled in 2022.

Table 5.3 Bond financing of Country Garden Services after spin-off listing

Date	Instrument	Amount (HKD mn)	Amount (RMB mn)	Maturity	Conversion price	Cost
2020.04	Convertible bonds	3,875	3,548	2021.05	HKD 39.68	Converted
2021.05	Convertible bonds	5,038	4,143	2022.06	HKD 97.83	3.10%
	Total	8,913	7,691			

Between 2014 and 2024, the 26 spin-off listed companies raised a total of HKD 14,947 million through debt financing. Country Garden Services accounted for 60% of this amount, demonstrating its ability to capture favorable windows and raise large sums. Its financing terms, including guarantees and effective interest rates, were relatively favorable. For example, Colour Life's corporate bonds and privately placed senior notes required parent company guarantees, with interest rates ranging from 7.9% to 10% and maturities of 1–3 years. China Merchants Property Operation & Service, backed by state-owned capital, issued medium-term notes with a coupon of 3.87% and a maturity of three years. Shimao Services issued convertible bonds with an effective annual interest rate of 8.32%. Meanwhile, Country Garden Group issued HKD 15,600 million and HKD 7,830 million in convertible bonds in January and November 2018, but issued none during 2019–2021.

In the interest-bearing debt structure, Country Garden Services relies mainly on convertible bonds, supplemented by bank loans, whereas Country Garden Group relies mainly on bank loans, supplemented by senior notes, corporate bonds, and convertible bonds. This financing structure reflects industry characteristics: Country Garden Services operates an asset-light model, with client service contracts as its core assets; investors focus on the growth potential of the property services sector, making convertible bonds its primary financing tool. In contrast, Country Garden Group operates an asset-heavy model, with real estate development projects as core assets and ample collateral, and therefore relies primarily on bank loans.

In asset-liability ratio, refer to Table 5.4, industry comparison data reveal distinct divergence patterns between Country Garden Services and the property management industry, and Country Garden Group and the real estate development industry.

Table 5.4 Comparison of asset-liability ratios

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	59.75	86.24	75.317	77.97	74.64
-2	56.10	84.27	86.204	77.86	76.79
-1	55.65	77.14	88.891	77.97	75.89
0	57.81	39.93	89.360	77.81	79.61
1	53.71	47.88	88.538	79.25	78.25
2	48.22	47.92	87.251	79.89	77.11
3	42.57	46.88	84.570	84.57	76.22
4	43.05	49.19	82.254	82.25	79.48
5	43.99	46.61	93.147	78.46	82.26
6	45.16	47.86	95.052	79.39	84.25

After the spin-off listing, the gap between the asset-liability ratios of the property management segment and the development segment widened from roughly the same level to nearly 30 percentage points. The asset-liability ratio of Country Garden's development segment remained at a high level after the spin-off, fluctuating between 82.25% and 95.05%, with the gap relative to the real estate development industry mean (77.81%–84.57%) gradually expanding. After 2023, the leverage ratio of its development segment exceeded 90%, significantly higher than the industry mean. Non-spin-off companies exhibited a continuous rise in asset-liability ratios, with the median increasing from 74.64% to 84.25%.

In the three years prior to the spin-off (2015–2017), the asset-liability ratio of Country Garden Services (55.65%–59.75%) was significantly lower than that of the property management sector (77.14%–86.13%), while Country Garden's development segment (75.32%–88.89%) and the real estate development sector (77.86%–77.97%) both maintained high leverage levels. After the spin-off (2019–2024), the asset-liability ratio of Country Garden Services fell steadily, from 53.71% to 45.16%. During the same period, the property management sector mean decreased from 77.14% before the spin-off to 47.86%, showing a synchronized downward trend.

Through large-scale equity financing combined with solid profitability, Country Garden Services increased its shareholders' equity and reduced its asset-liability ratio. Conversely, the real estate development sector, impacted by operational losses and increased debt financing, saw its asset-liability ratio rise steadily.

The asset-liability ratios of property management companies show distinct stage-based changes before and after the spin-off listing (see Table A5.3 in the Annex). In the three years before the spin-off, industry leverage remained high, with means ranging from 76% to 86% and medians between 77% and 87%. At the year of the spin-off, a sharp decline occurred: the mean asset-liability ratio fell to 43.19% and the median to 39.93%, about 32 percentage points lower

than the previous year. In the first to sixth years after the spin-off, the mean ratio rebounded slightly to the 49%–55% range, while the median stabilized at 46%–49%. However, volatility increased, with the standard deviation rising from 10–12 pre-spin-off to 18–24 post-spin-off. In terms of extremes, the maximum value before the spin-off was 103.6%, while after the spin-off the first year reached a peak of 153.1%, and by the sixth year the maximum fell back to 63%. Overall, after the spin-off listing, the industry's asset-liability ratio shifted downward, from above 80% before the spin-off to around 50% afterwards.

The asset-liability ratio of the real estate industry shows a completely different pattern compared with the property management industry (see Table A5.4 in the Annex). From three years before to the year of the spin-off (years –3 to 0), the industry leverage remained relatively stable, with means between 77% and 78%, medians at 77%–78%, and standard deviations of 6–8, indicating that real estate companies generally operated with high but steady leverage pre-spin-off. After the spin-off, the asset-liability ratio displayed a rising trend, with the mean reaching 80.06% in the first year and peaking at 85.40% in the fourth year. An extreme value of 132% appeared in the second year after the spin-off. Medians rose from 79.25% in the first year to 84.57% in the third year, while the 75th percentile increased from 83.72% to 96.64%. Standard deviations expanded to 12–21, suggesting significant divergence in leverage levels across company's post-spin-off. Overall, the real estate industry's asset-liability ratio remained high before and after the spin-off, in sharp contrast with the notable decline in leverage in the property management industry.

The interest-bearing debt ratio can be used as a supplementary indicator of the asset-liability ratio to measure the financial leverage ratio of a firm. In view of China's unique real estate pre-sale system, after completing land cleaning and obtaining a pre-sale certificate, real estate developers can pre-sell properties to customers, who need to pay the full price of the house rather than according to the progress of the project. Under this system, the financial statements of real estate developers contain a large amount of operating liabilities, namely, advances from customers. The interest-bearing liabilities without operating liabilities, such as bank loans and corporate bonds, are the risky debt of a company. Interest-bearing debt ratio = interest-bearing debt/total invested capital = interest-bearing debt / (interest-bearing debt + shareholders' equity).

Refer to Table A5.5 in the Annex, in the real estate development industry, the interest-bearing debt ratio stayed in the 63%–65% range before the spin-off. Country Garden's ratio (57.89%–69.81%) was significantly above the industry mean (63.10%–65.24%). In the fifth year after the spin-off, Country Garden's debt ratio suddenly spiked to 90.6%, and in the sixth

year reached 102.9%. Industry means remained between 66% and 83%, highlighting the rising individual risk at Country Garden. For non-spin-off companies, the interest-bearing debt ratio steadily increased, with the median rising from 61.84% to 90.93%. Before the spin-off, Country Garden Services maintained a 0% interest-bearing debt ratio, reflecting an extremely conservative financial strategy. By contrast, industry means fluctuated widely (0.16%–27.73%), indicating that many peers relied on debt financing. After the spin-off, Country Garden Services began to take on debt (peaking at 20.7%), but it gradually declined to 2.3% by 2024. Meanwhile, the industry mean dropped sharply to 0%–2.32%, showing that after the spin-off the entire industry shifted toward a low-debt model.

The interest-bearing debt ratio of the property management industry was high before the spin-off, but showed a downward trend year by year (see Table A5.6). In the third year before the spin-off, the mean was 41.24% with a large standard deviation (42.55), indicating significant differences among companies. As the listing approached, debt levels fell sharply, with the mean declining to 23.65% in the year before the spin-off (year -1), and the median nearly at 0%, suggesting that most companies significantly reduced leverage. At the year of the spin-off (year 0), the mean ratio dropped further to 4.86%, with a median of 0% and a 75th percentile of only 3.51%, showing that the industry as a whole shifted to a low-debt structure. In the first to sixth years after the spin-off, the mean ratio fluctuated between 5% and 10%, the median stayed within 0%–3%, and standard deviation narrowed, reflecting convergence in financial strategies. Extreme values influenced some years, such as the second-year post-spin-off, which showed an abnormal value of –249.3% due to negative invested capital in certain companies, temporarily enlarging the standard deviation to 53. Overall, the spin-off listing significantly reduced reliance on interest-bearing debt in the property management industry, resulting in a more stable liability structure.

In the real estate industry, the interest-bearing debt ratio stayed at a high level both before and after the spin-off, and showed an upward trend afterwards (see Table A5.7 in the Annex). From three years before to the year of the spin-off (years –3 to 0), the industry mean remained stable at 63%–68%, with relatively small standard deviations (years 12–13), indicating limited variation among companies. After the spin-off, the mean rose significantly, reaching 76.31% in the first year and 90.72% in the second year, with volatility also increasing sharply (standard deviation peaking at 89.76%), suggesting that some companies rapidly expanded leverage. Before the spin-off (years –3 to 0), the median (p50) stayed at 64%–65%, and the 75th percentile did not exceed 79%, showing high but relatively concentrated leverage. After the spin-off (year 1 onwards), both the mean and the median rose continuously, and extreme high

values appeared (e.g., max of 514.6% in year 2), reflecting aggressive leverage expansion by some companies. In the longer term (after 5 years), the mean debt ratio stabilized at 85%–90%, remaining at a high level. Overall, unlike the property management industry, the interest-bearing debt ratio of real estate companies not only failed to decrease after the spin-off, but increased further with greater volatility.

5.1.3 Acquisition transaction

Valuation increases provide feasibility for financing, ultimately funding acquisition projects (see Table 5.5). During 2021–2022, the fee-based managed area of properties developed by independent third-party property developers increased significantly, mainly due to acquisitions of large property management companies such as Justbon Services, Fuliang Global, Link Joy Holdings, and Zhongliang Everjoy. Market expansion remained high. In 2023, 1,556 new brand expansion projects were signed, generating approximately RMB 3.726 billion in annualized revenue. Leveraging the geographical advantages of managed projects, Country Garden Services pursued comprehensive expansion, with 45 percent of new external projects located in first- and second-tier cities and 55 percent in third- and fourth-tier cities.

Table 5.5 M&A transactions of Country Garden Services after spin-off listing

Date	Target company	Business type	Shareholding ratio	Consideration (RMB mn)
2018.11	Beijing New Era Property Services	Property management services	100.00%	773
2019.07	Asia Asset Property Services	Property management services	100.00%	375
2020.04	Wenjin Hotel	Property insurance, life insurance, and reinsurance brokerage	100.00%	84
2020.04	Hopefluent Group	Property agency	3.53%	36
2020.07	City Media	Urban building elevator advertising media development and operations	100.00%	794
2020.10	Manguo Kangjie	Integrated urban and rural environmental management	70.00%	2,450
2020.10	Beautiful City E.S.	Urban environmental services	60.00%	871
2020.11	Intercontinental Strait Energy Technology	Oil and gas engineering technical services	25.78%	140
2021.03	Languang Justbon Services	Property management services	71.17%	7,617
2021.09	Fuliang Global	Property management services	100.00%	10,000
2021.09	Link Joy Holdings	Property management services	100.00%	3,300
2022.02	Zhongliang Everjoy	Property management services	93.76%	3,129
2022.11	Hopefluent Group	Property agency	21.47%	233
	Total			29,801

The high valuations of spin-off companies are driven not by a single factor but by a positive cycle between M&A projects and organic growth. The essence of the valuation logic is the symbiotic relationship between acquisition expectations and intrinsic capabilities.

In the short term, each acquisition acts as a market value amplifier. Stock prices rose after each acquisition announcement, as the market expected that the net profit of the target would directly boost EPS. For example, the 2021 acquisition of Link Joy for RMB 3.3 billion, despite a 70% premium, was justified based on the quality of core assets. In the long term, synergy between scale and value-added services matters. The market places more emphasis on integration potential and value-added service penetration after acquisitions. Acquisitions of high-end formats (e.g., commercial office, urban services) break regional limits. Expansion of community resource pools increases ARPU of value-added services (e.g., charging station revenue grew 173% in 2024). Valuation implicitly reflects optimistic DCF forecasts, e.g., assuming post-acquisition penetration of value-added services rises from 5% to 20%.

Country Garden Services' numerous acquisitions reveal a clear shift from pre–spin-off diversification toward post–spin-off focus. Post–spin-off acquisitions were more specialized in nature, producing positive short-term market reactions and, importantly, representing strategic acquisitions capable of supporting long-term performance. From 2019 to 2021, its acquisition strategy was a typical example of aggressive industry expansion, fully illustrating the scale-driven impulse supported by high valuations and its subsequent adjustments.

The company led the industry in acquisition scale, spending over RMB 19 billion in 2021 on major transactions, including RMB 4.9 billion for Justbon Services, RMB 3.3 billion for Link Joy Holdings, and RMB 240 million for Wuhan Xueyu. These transactions increased its managed area from 377 million square meters in 2020 to 766 million square meters in 2021, a 102.94% increase, with acquisitions contributing 72.6%. The capital market responded positively, with the share price peaking at HKD 85 in early 2021, pushing the market capitalization above HKD 250 billion.

However, from 2022, the industry environment changed dramatically, exposing risks from earlier high-premium acquisitions. Country Garden Services recorded impairment losses on goodwill of RMB 1,182 million for Justbon Services, RMB 445 million for Caixin Services, and RMB 109 million for Wuhan Xueyu, with total impairment losses exceeding 60% of net profit. These impairments stemmed from deteriorating target performance, with Justbon Services losing projects due to related-party debt crises and Wuhan Xueyu facing operational challenges due to over-reliance on a single commercial property type during the pandemic. In response, Country Garden Services proactively adjusted its strategy, initiating a rare industry-

wide project divestment. In 2022, it exited 84 million square meters of managed area, including 42 million from Justbon Services. Divestment criteria targeted projects with below-expected profit margins and insufficient property fee collection rates. At the same time, the company adjusted its M&A strategy, shifting from pursuing scale to seeking regionally complementary targets, such as the acquisition of Nantong Changle Property to strengthen its presence in the Yangtze River Delta.

The Country Garden Services case demonstrates that high valuations must ultimately be supported by sustainable cash-flow generation; otherwise, M&A-driven scale expansion will erode profitability, as evidenced by a 21.6% decline in core net profit in 2023.

5.2 The effect of corporate governance

5.2.1 Efficiency of internal capital market

After spin-offs, the inefficient internal capital market is dismantled. The subsidiary obtained independent listing status and the independence of the board of directors was enhanced. Subsidiaries have independent cash flow rights, and the parent company cannot dispose of the cash flow of listed subsidiaries at will. On the contrary, when the parent company faces financial distress, the subsidiary company can not only save itself, but also help the parent company to a certain extent.

On May 29, 2018, Country Garden spun off its property management business and listed it independently by way of introduction. Country Garden announced the distribution of 2.5 billion shares, with shareholders receiving one share of Country Garden Services for every 8.7 shares of Country Garden held. Both before and after the distribution, Ms. Yang Huiyan remained the ultimate controller of both Country Garden and Country Garden Services. Following the spin-off, the business operations of Country Garden and Country Garden Services were clearly separated, eliminating any direct or indirect competition.

Country Garden Services established a board of directors operating independently from Country Garden Group, with a majority of independent non-executive directors. The board comprises one chairman and non-executive director, four independent non-executive directors, and two executive directors (refer to Table A5.8 in the Annex). This organization structure enhances the independence of the board of directors. The board has established three specialized committees: the Audit Committee, the Remuneration Committee, and the Nomination Committee (refer to Figure A5.3 in the Annex). The Audit Committee is responsible for

overseeing financial reporting, risk management, and internal control; recommending the appointment of external auditors to the board; and monitoring the independence and objectivity of external auditors. The Remuneration Committee is responsible for setting the remuneration policy and structure for senior management and making recommendations. The Nomination Committee is responsible for managing the structure, size, and composition of the board and making recommendations on the appointment and removal of directors. While each committee performs distinct functions, they also cooperate with one another. The board further reviews and monitors the business, thereby motivating and constraining management behavior.

Compared with the time of the spin-off listing, when three directors were from the parent company Country Garden Group, in 2023 only one director was from the Group. Yang Huiyan remains the ultimate controller of both independent listed companies. In terms of relatedness with Country Garden Group, the independence of board decision-making has been significantly enhanced.

After spin-offs, the subsidiary has cash flow rights independent of the parent company. In view of industry differences, parent and subsidiary companies have completely different characteristics of cash flows. The comparison of relative data can better show the difference in cash flow quality, Operating cash flow quality = Net cash flow from operating activities / Operating revenue.

Comparisons of operating cash flow between Country Garden Services and the property management industry, and Country Garden Group and the real estate development industry, reveal significant differences. Refer to Table 5.6, In the three years before the spin-off, Country Garden Services' cash flow rose rapidly from –0.74% to 28.36%, while the industry median increased from 13.54% to 16.90%. Over the same period, Country Garden Group's development segment improved from –15.54% to 10.61%, whereas the industry median fell from 9.36% to 4.49%. After the spin-off, Country Garden Services' cash flow declined from a mean of 33.77% to 8.80%, while the industry median dropped from 15.89% to 8.15%. The development segment fluctuated sharply, from 3.02% down to –1.29%, whereas the real estate industry median remained within the 2.27%–6.06% range. In the fifth year after the spin-off, the contrast was striking: Country Garden Services' cash flow of 10.83% remained far higher than the development segment's –18.98%, a gap of 29.81 percentage points. Overall, property management cash flows were more stable and stronger than those of real estate development.

Table 5.6 Comparison of operating cash flow trends

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	-0.74	13.54	-15.54	9.36	-1.98
-2	42.46	16.64	26.95	3.22	38.55
-1	28.36	16.90	10.61	4.49	12.48
0	33.13	17.14	7.75	10.72	4.43
1	33.77	15.89	3.02	3.17	13.68
2	23.16	8.38	-4.67	2.27	0.03
3	11.81	8.59	2.08	2.77	6.48
4	8.03	6.20	8.28	6.06	5.55
5	10.83	10.83	-18.98	5.22	19.09
6	8.80	8.15	-1.29	3.15	8.60

The property management industry exhibited staged fluctuations in operating cash flow around the time of spin-off. Refer to Table A5.9 in the Annex, In the three years before spin-off, the industry mean rose from 15.78% to 22.12%, with the median increasing from 13.54% to 16.90%. However, the standard deviation widened from 14.70 to 30.11, indicating significant inter-company divergence. In the spin-off year (year 0), the mean fell back to 16.55% (median 17.14%). It rebounded slightly to 18.27% in the first post-spin year, but in years 2–6 the mean dropped to the 7.91%–10.01% range and the median stabilized between 6.20% and 10.83%, clearly below pre-spin-off levels. Two key features emerged. Firstly, greater volatility after the spin-off, including an extreme negative value of –79.26% in the spin-off year; secondly, a more dispersed distribution post-spin-off, with standard deviation remaining in the 4%–17% range, well below the pre-spin-off range of 12.77%–30.11%. Overall, operating cash flow trended upward before the spin-off but declined and stabilized at a lower level afterward.

The real estate development industry experienced even greater volatility. Refer to Table A5.10 in the Annex, in the third year before the spin-off (year -3), the industry's mean cash flow was -3.01%, with a median of 9.36%, showing strong divergence among companies. By the first year before the spin-off (year -1), it improved to a mean of 0.29% and a median of 4.49%. In the year of the spin-off (year 0), the mean cash flow rose to 9.66% (median 10.72%). In the first to third years after the spin-off (years 1–3), cash flow turned negative again, with means ranging from -0.0273% to -3.156% and medians fluctuating between -1.775% and 1.674%. A short-term rebound occurred in the fourth year after the spin-off (year 4), with a mean of 7.955%, but in subsequent years (years 5–9), cash flows fell back to a range of -4.204% to 12.82%, exhibiting marked volatility (for example, reaching -34.07% in the seventh year). Data characteristics show that the standard deviation of cash flows remained at a high level of 15–63 throughout the pre- and post-spin-off periods, with a maximum of 114% and a minimum of -207.8%, reflecting a wide gap. The median cash flow after the spin-off was generally lower

than that before the spin-off, and the proportion of companies with negative cash flow increased significantly. Overall, the operating cash flow of the real estate industry did not show a sustained improvement after the spin-off; instead, its volatility intensified.

As stated above, after spin-off listing, the subsidiary obtains independent listing status, the independence of the board of directors is enhanced, and it has independent cash flow rights. In contrast, when the parent company faced financial distress, the business development of the unspun subsidiary stagnated. Take Country Garden agriculture as an example. The crisis at the parent real estate group exerted multiple pressures on its modern agriculture subsidiary in the second half of 2023.

First, internal capital infusions ceased. Between 2018 and 2022, the agriculture segment received more than RMB 3.8 billion in group capital injections, but after 2023 it was forced to seek external financing. Given the 8–10 year long payback cycle and limited collateral of agricultural projects, external financing proved extremely difficult. Second, related-party credit issues caused disruptions. Defaults on real estate commercial bills triggered a supply chain trust crisis. For example, the cooperative at the Wuchang rice base in Heilongjiang raised the required advance payment ratio from 30% to 70%, and third-party suppliers to the Biyouxuan fresh-food stores shortened payment terms from 90 days to 15 days. Third, the strategic priority of agriculture diminished. In Country Garden Group's restructuring plan, modern agriculture was classified as a "non-retained asset." Staff numbers shrank from a 2022 peak of 2,800 to 900 by the end of 2024. Planned investment of RMB 2 billion in the Wuhan Smart Agriculture Industrial Park was suspended, the Qingyuan unmanned farm in Guangdong cut 30% of its workforce, and the 2024 agricultural R&D budget was reduced by 45% year-on-year. In December 2024, all equity in Guangdong UNICUL Technology was transferred, marking Country Garden Group's full exit from the agricultural equipment market. When the core business enters crisis, agricultural operations lacking independent cash-generation capacity are easily abandoned. Agricultural modernization requires capital and technology, but more importantly the removal of speculative motives and the establishment of resilience rooted in real industry fundamentals.

However, when the real estate group experienced a concentrated outbreak of financial distress and debt defaults, the property services company, although affected to some extent, maintained its fundamental financial stability and steady operations. Not only that, the property services company also indirectly supports the parent company in related party transactions, funds lending and core employee placement.

Refer to Table A5.11, before the spin-off listing, related-party transactions declined year

by year. Related-party receivables fell from RMB 523 million in 2015 to RMB 67 million in the year of the spin-off. After the spin-off, however, related-party transactions increased annually, with receivables rising to RMB 2,997 million in 2023, nearly 45 times the level at the time of the spin-off.

In 2023, China's real estate market underwent a major shift in supply and demand, and Country Garden Group faced temporary liquidity pressure. Following the principle of prudence, Country Garden Services made an impairment provision of RMB 2,181.66 million on trade receivables from Country Garden Group. In May 2025, Country Garden Services used shares held by its major shareholder as collateral to lend RMB 10,000 million to Country Garden Group to support residential project deliveries.

Other large real estate companies are also facing a similar situation. By the end of 2024, Sunac Services had made cumulative impairment provisions of RMB 2.695 billion on related-party trade receivables. Gemdale Group recorded an asset impairment provision of RMB 3.253 billion in the fourth quarter of 2024. Evergrande Property Services provided deposit pledge guarantees for financing by several third-party companies, and the pledged funds were ultimately transferred to its related party Evergrande Group. When the pledge terms expired, conditions for enforcement were triggered, and banks forcibly executed RMB 13.4 billion in 2021. When Vanke Group was facing financial crisis, it signed a loan framework agreement with Shenzhen Metro Group and obtained a loan of 22 billion yuan. As one of the loan collateral, Vanke Group has pledged 57.16% of all voting rights of its property management subsidiary Onewo in 2025. At the same time, Vanke Group sold 100% equity of its subsidiary Shanghai Xiangda to Onewo for a consideration of 870 million yuan.

In terms of the number of employees, refer to Table A5.12 in the Annex, Country Garden service has grown steadily with Country Garden Group has fallen off a cliff. When Country Garden Group made major layoffs, some core employees were relocated to Country Garden Service. Refer to Table A5.13 in the Annex, the median of property management employees increased from 8,590 in the year of the spin-off to 14,656 in the fifth year after the spin-off, and jumped to 52,220 in the sixth year after the spin-off. When the real estate industry faced the financial crisis, the property management industry played the role of "stabilizer".

5.2.2 The effect of management incentives

After the completion of the spin-off listing, the company prospects and operating results could be directly reflected in its share price. Through management shareholding, the interests of the company and the management were better aligned. Assessing senior executives using long-term

indicators helped curb short-term behavior by management to a certain extent, thereby safeguarding the implementation of the company's long-term strategy.

During the preparation stage for the spin-off listing, a share option plan was established. Based on their past value contributions to Country Garden Group, the participants of the plan included employees of Country Garden Services Group, directors of Country Garden Group, and other qualified persons. On May 21, 2018, Country Garden Services granted a total of 132.95 million share options to 15 grantees, representing 5.32% of the company's issued share capital prior to listing, with an exercise price of HKD 0.94 per share. The exercise conditions required that, in the relevant fiscal year, the net profit of Country Garden Services Group had to increase by 25% or more compared with the previous fiscal year; the relevant grantee had to meet the annual performance assessment targets set by Country Garden Services Group.

In September 2020, 71.5 million share options were granted at an exercise price of HK $50.07. The exercise condition of the option is that the net profit of the attributable fiscal year shall increase by more than 38% compared with the previous fiscal year. As the share price continued to fall, 25.062 million of those outstanding options were terminated. Further, 225.35 million share options were granted in July 2024 at an exercise price of HK $5.01. The exercise condition of the share option is that the performance development speed exceeds the average year-on-year growth rate of 20 listed companies in the same industry. In the process of granting the share option by Country Garden Services, the executive directors receive the amount of share incentive matching the performance (see Table 5.7).

Table 5.7 Share incentives for executive directors of Country Garden Services after spin-off listing (Unit: RMB 1,000)

Name	2018	2019	2020	2021	In 2022	2023	2024
Li Changjiang	4,978	2,724	58,709	23,293	8,607	0	0
Xiao Hua	1,829	1,000	18,516	7,321	2,705	0	3,448
Guo Zhanjun	1,804	987	16,868	6,655	2,459	0	0
Xu Binhuai	0	0	0	0	0	0	8,275
Subtotal	8,611	4,711	94,093	37,269	13,771	0	11,723

The core team at Country Garden Services is generally young and highly experienced, with many long-serving members. During the initial stage of independent operation following the spin-off listing, the parent company Country Garden Group assigned three senior executives to serve concurrently as non-executive directors. Among them, two resigned in 2022, four years after the spin-off listing, reflecting the company's operational independence. The current executives have both long industry experience and long service tenure. Since the spin-off listing, only one executive director has resigned, and the management team has remained stable overall.

With the financing and acquisition activities after spin-off, as well as the implementation of management incentive plan, Country Garden's service revenue has grown rapidly and its ranking in the industry has continued to improve. Country Garden Services rose from fifth place in the industry in 2018 to first place in 2021 (see Table A5.14 in the Annex). However, according to Section 5.3.2, the profitability of Country Garden service decreases gradually after the spin-off and listing. The role of management incentive plans in profitability remains uncertain.

5.3 Evaluation of operational performance

5.3.1 Business scale and structure analysis

After the spin-off listing, the management incentive plan can be implemented, which promotes the growth of the company's operating performance and thus drives the improvement of the company's valuation. The huge amount of financing brought by the improvement of the company's value provides financial support for external project acquisition and strengthening internal operating capacity, further promoting the growth of business scale.

To achieve growth targets, companies may pursue extensional or organic growth strategies, differing in resource requirements, implementation mechanisms, and sustainability. Extensional growth achieves scale expansion through external resource integration, such as mergers and acquisitions, strategic partnerships, or business diversification, focusing on quantitative breakthroughs. Organic growth relies on optimizing internal resources and enhancing operational efficiency to achieve organic expansion. Building on existing business lines, it emphasizes qualitative improvements through innovation in products and services, process optimization, or market penetration to drive performance growth.

In practice, the two growth strategies often intertwine, with companies typically adopting a dual approach, accelerating market presence through extensional acquisitions while pursuing organic development in core businesses. Extensional growth offers unique advantages in responding to market disruptions, enabling rapid scale expansion through acquisitions to seize opportunities, enter new markets, or eliminate competitive threats. Organic growth, rooted in internal capability enhancement, avoids risks like cultural conflicts or system integration challenges post-acquisition, offering greater sustainability and resilience. Performance improvements from organic growth demonstrate significantly stronger profit sustainability compared to extensional growth. With the combined effect of the two growth modes, the

leading enterprises in property management have achieved leapfrog development (see Table A5.15 in the Annex).

Refer to Table 5.8, for Country Garden Services and Country Garden Group, two years pre-spin-off (-2), Country Garden Services' operating revenue growth rate (41.12%) slightly exceeded that of Country Garden Group (35.18%). In the year before and during the spin-off (-1, 0), Country Garden Services' growth rate was lower than Country Garden Group's. From years 1 to 6 post-spin-off, Country Garden Services' operating revenue growth rate consistently outperformed Country Garden Group's.

Table 5.8 Industry trends in operating revenue growth rate

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate industry	Non-spin-off companies
-2	41.12	35.44	35.18	24.23	42.36
-1	32.31	33.19	48.94	24.44	63.64
0	49.77	39.48	67.27	19.11	26.75
1	106.15	39.78	27.70	12.76	35.91
2	61.74	26.07	-4.69	-2.25	24.67
3	84.77	6.26	12.99	0.76	35.58
4	43.59	0.61	-17.81	-13.82	19.95
5	2.91	2.91	-6.82	-0.62	12.65
6	3.22	-3.28	-36.97	0.08	4.29

Comparing the property management and real estate industries, from two years pre-spin-off to year 5 post-spin-off (-2 to 5), the property management industry's median growth rate consistently surpassed that of the real estate industry. In year 6 post-spin-off, the property management industry's median turned negative (-3.28%), while the real estate industry's median was slightly positive (0.08%).

Comparing the property management industry with non-spin-off companies, two years pre-spin-off (-2, -1), the property management industry's median growth rate was lower than that of non-spin-off companies. From the spin-off year to year 2 post-spin-off (0, 1, 2), the property management industry's median growth rate exceeded that of non-spin-off companies. From year 3 to year 6 post-spin-off (3–6), the property management industry's median growth rate fell below that of non-spin-off companies.

The operating revenue growth rates of Country Garden Services and the property management industry exhibit divergent trajectories before and after the spin-off. Two years pre-spin-off and in the spin-off year (2016–2018), Country Garden Services' revenue growth rate (32.31%–49.77%) outpaced the industry median (33.19%–39.48%), reflecting the growth advantage of a leading company. In year 1 post-spin-off (2019), a significant divergence emerged, with Country Garden Services' growth rate soaring to 106.15%, while the industry

mean rose modestly to 39.78%. From years 2 to 4 post-spin-off (2020–2022), Country Garden Services maintained a higher growth rate relative to the industry, with medians ranging from 43.59% to 84.77%, compared to the industry median of 0.61%–26.07%. In year 5 post-spin-off (2023), both growth rates declined sharply, with Country Garden Services at 2.91% (industry 2.91%), and in 2024, Country Garden Services' growth rate fell to 3.22% as the industry turned negative (-3.28%).

The growth of operating performance of property management services primarily relies on three strategies to achieve. First, parents group or related-party transfer projects. In the early development of the property management industry, subsidiaries of real estate companies relied heavily on parent company development projects for natural growth. Companies like Country Garden Services and Poly Property gained tens of millions of square meters in new managed area annually through parent company projects. By 2020, related-party projects accounted for over 70% of the top 10 property management companies' portfolios.

Second, aquire projects through market-driven acquisition. From 2018, industry acquisition activity surged, with cumulative acquisition amounts exceeding RMB 80,000 million from 2018 to 2022, including RMB 30,000 million in 2021 alone, enabling leading companies to achieve geometric growth in managed area. Notable cases include A-Living' RMB 1,000 million acquisition of Greenland Property in 2017, entering Shanghai's high-end market. From 2021 to 2022, Country Garden Services acquired large-scale property management companies such as Justbon Services, Fuliang Global, Link Joy Holdings, and Zhongliang Everjoy, increasing its fee-based managed area from 182 million m^2 in 2018 to 1,127 million m^2 in 2024, a 519% growth over five years.

Third, bid the projects from third-party. After 2020, as real estate development slowed, leading companies accelerated expansion into independent third-party projects. Onewo secured non-residential projects nationwide through its "city partner" model. China Merchants Property Operation & Service, leveraging its state-owned background, saw 35% of its new managed area in 2023 from government public construction projects. Country Garden Services maintained high market expansion volumes, adding 1,556 brand expansion projects in 2023, contributing approximately RMB 3,726 million in annualized revenue.

With related-party project transfers as a foundation, leading companies aggressively pursued acquisitions and third-party project bidding, increasing the proportion of independent third-party property projects in basic property management service performance. Refer to Table A5.16 in the Annex, in 2023 Country Garden Services' performance from independent third-party properties accounted for 50%, significantly reducing reliance on related-party projects.

Project acquisitions are the extensional growth, while related-party project transfers and third-party project bidding belong to the organic growth.

As an accelerator of corporate expansion, extensional growth achieves step-change revenue increases through strategic acquisitions and resource integration. Its core value lies in overcoming the speed constraints of organic development, enabling rapid acquisition of key resources, market entry, or competitive threat elimination. In the property management industry, extensional growth manifests as rapid physical scale expansion through acquisitions and market expansion, leading to exponential increases in managed area. From 2015 to 2025, the concentration of China's property management industry surged, with the top 100 companies' market share rising from less than 10% in 2007 to 52.31% in 2021, reaching approximately 58% in 2024, marking a shift from fragmentation to consolidation.

The essence of organic growth lies in achieving revenue growth through internal resource optimization and capability enhancement, focusing on improving the operational efficiency and output value of existing assets and businesses rather than relying on external expansion. This growth model requires companies to build systemic competitiveness across three dimensions—product, customer, and efficiency—resulting in higher growth quality and greater sustainability. The financial value of organic growth is succinctly captured in the ROE formula: ROE = Gross Profit Margin × Asset Turnover × Financial Leverage. Organic growth primarily enhances the first two factors: increasing gross profit margin through brand premium and accelerating asset turnover through operational optimization. This fundamentally differs from extensional growth, which relies on financial leverage (e.g., debt-financed acquisitions). Data indicate that companies consistently adopting organic growth exhibit 40% lower volatility in five-year revenue compound growth rates compared to acquisition-driven companies, demonstrating stronger risk resilience.

When scale expansion encounters diminishing marginal returns, leading property management companies shift toward high-margin value-added services to achieve organic growth. This transition encompasses three core pathways.

First, building community living service ecosystems. Property management companies leverage their geographic proximity and trust relationships with owners to create commercial closed loops around "last-mile" consumption scenarios. Xinpu Shop Community E-commerce Cloud's "three-pronged" model is exemplary, integrating omnichannel traffic operations, supply chain consolidation, and digital platforms, achieving a first-month GMV exceeding RMB 0.8 million and a 58% fresh food repurchase rate in Agile projects. Poly Property's "Smart Community OS" platform connects over 200 third-party service providers, offering 15

service categories, including housekeeping, elderly care, and medical consultations, with value-added service revenue accounting for 28%.

Second, professional services for non-residential formats. Expansion into commercial properties and urban public services has become a new growth driver. China Resources Mixc Lifestyle, leveraging its high-end commercial operation capabilities, managed 98 shopping malls and 26 office buildings in 2023, generating commercial operation revenue of RMB 5,170 million with a gross margin exceeding 35%, significantly higher than the 22% for basic services. Onewo introduced an "Urban Services" product line, undertaking municipal sanitation, park management, and other government projects. In 2023, revenue from this business grew 40%, becoming an important pillar against real estate cycles.

Third, technology-enabled cost reduction and efficiency gains. AIoT technology applications have transformed property management efficiency. Onewo's Intelligent Work Order System reduced repair response time to 15 minutes; China Overseas Property Management's AI inspection system, developed with Huawei, lowered equipment failure rates by 40%; and Greentown Service launched a "Property Fee–Carbon Credit" system that optimized energy consumption, reducing operating costs by 15% while increasing fee collection rates by 8 percentage points. These technological advancements increased per capita managed area among leading companies from 5,000 m² in 2015 to 8,000 m² in 2023, with projections to reach 12,000 m² by 2025.

Refer to Table A5.17 in the Annex, since the 2018 spin-off listing, Country Garden Services has continuously diversified its operations, expanded revenue sources and reducing the risk of relying on a single business type. In 2018, its businesses consisted only of property management, community value-added, and non-property owner value-added services. In 2019, the company added the Three-Supplies and Property product line. In 2020, it aggressively expanded into City Services. In 2021, it launched Commercial Operation Services, creating a total of six major operating segments. Among them, Three-Supplies and Property and City Services achieved major breakthroughs in both revenue scale and performance share.

Property management services include security, cleaning, landscaping, gardening, and maintenance. Service areas cover the five major developed urban clusters with first- and second-tier cities accounting for 42% of fee-based managed area. In 2023, the company recorded a contracted managed area of about 1,633 million m², a fee-based managed area of about 956.9 million m², and operating revenue of RMB 24,699 million. As other segments grew rapidly, the revenue share of this business declined from 73.7% in 2018 to 57.96% in 2023.

Community value-added services cover home services, home decoration, community

media, local life services, real estate brokerage, and community space services. Following a "1+N+X" community value-added service strategy focused on strategic businesses, the company upgraded community media to integrated marketing to build a complete "communication–experience–purchase–sharing" chain. It partnered with emerging smart-cleaning brand INXNI, hosting over 800 experiential events; built a liquor sales business through a strategic partnership with Guotai Liquor; and created an innovative clothing-care store model with 100 franchised stores opened in 2023. Its rental and sales brand were fully upgraded to "YOUWA" in 2021, offering premium rental and purchase experiences through a direct operation and partnership store model. In 2023, this segment generated RMB 3,753 million in revenue, with a stable share since the spin-off.

Non-property owner value-added services include pre-sales management consulting, initial cleaning, landscaping, and maintenance prior to property handover, agency sales and leasing of parking spaces and unsold units. In 2023, revenue was only RMB 1,553 million. As property sales of related party Country Garden Group declined, this segment's revenue share fell from 14.74% in 2019 to 3.65% in 2023.

The Three-Supplies and Property business, launched in 2018 via a joint venture, expanded services to office properties, petrochemical factories, industrial parks, oil and gas field stations, and canteen services for state-owned enterprises. By 2023, it managed projects across 107 cities in 31 provinces. In 2023, it generated revenue of RMB 6,520 million, up from zero at the 2018 spin-off, with a revenue share of 15.3%. Revenue growth was driven by increased project acquisitions and active development of production-related services.

Urban services focus on urban public services, urban resource operations, and digital urban governance. Launched in 2020, the segment generated RMB 4,884 million in 2023, up from zero at the 2018 spin-off, accounting for 11.46% of total revenue.

Commercial operation services provide full-chain solutions such as commercial planning, tenant recruitment, operations, and marketing for shopping centers. Product lines include the one-stop shopping center "Bele City", community retail "Bele Fun", and commercial block "Bele Time". In 2023, this segment generated revenue of RMB 1,012 million, with a revenue share of 2.38%.

Five years after the spin-off of Country Garden Service, the project acquisitions are close to completion. With the decline of China's real estate market, the related-party project transfers are gradually reduced. In view of the industry characteristics of high customer retention, it is also difficult to obtain projects through for third-party project bidding. The growth rate of Country Garden's service operating income began to slow down, with the median dropping

significantly from 43.59% in the fourth year after the spin-off to 2.91% in the fifth year after the spin-off.

Property management companies exhibit distinct changes in operating revenue growth trajectories before and after spin-off listing (see Table A5.18 in the Annex). From three years pre-spin-off to the spin-off year (years -3 to 0), industry revenue growth maintained an upward trend, with the mean rising from 37.37% to 42.06% and the median from 35.44% to 39.48%, indicating a period of rapid growth. In year 1 post-spin-off (year 1), growth peaked at a mean of 45.05% (median 39.78%), but the standard deviation widened to 32.89, reflecting increased inter-company divergence. From year 2 post-spin-off, growth slowed significantly, with the mean declining from 24.60% (year 2) to 5.33% (year 5), and the median dropping from 26.07% to 2.913%. Notably, in year 4 post-spin-off (year 4), an extreme value of 121.7% appeared, but the 25th percentile fell to -4.9% and the median to 0.61%, indicating weakened industry growth momentum. Overall, from years 3 to 5 post-spin-off (years 3 to 5), the industry's growth center shifted downward from the pre-spin-off range of approximately 37% to 5%–15%, with a significant increase in the proportion of companies reporting negative growth, highlighting challenges in sustaining growth post-spin-off.

For the real estate companies, in the two years before the spin-off, the industry's operating revenue growth rate improved slightly, with the mean rising from 31.38% in year -2 to 37.92% in year -1, and the median increasing marginally from 24.23% to 24.44%. Starting from the spin-off year, growth rates began to decline, the mean dropped sharply from 25.23% to 9.71% and the median from 19.11% to 12.76%. The mean turned negative in year 3 after the spin-off, and the median became negative from year 2 onward. Thereafter, both mean and median remained negative. The SD remained relatively stable, ranging between 25.60% and 44.49%, indicating limited fluctuations in operating revenue growth among companies (see Table A5.19 in the Annex). Although the spin-off improve the business concentration and specialization of the parent and subsidiary companies, the real estate companies are affected by the industry development cycle and policy regulation, and the growth rate of operating income continues to decline.

5.3.2 Profitability

While the previous section analyzed the business scale and structure, this section focuses on the key factors affecting EBIT in the property management industry.

Refer to Table 5.9, compared with Country Garden Group and the real estate development industry, the EBIT margin gap between Country Garden Services and Country Garden Group

was minimal in the three years before spin-off listing. In the third and second years prior to spin-off listing (years -3 and -2), the property management industry's median EBIT margin was approximately half that of the real estate development industry, at 12.09% and 12.43% versus 25.58% and 26.55%, respectively. In the year before spin-off listing (year -1), the gap began to narrow, with median margins of 17.12% and 23.54%, respectively. With China's tightened regulation of the real estate development industry, the profit performance of real estate developers deteriorated. In the first year after spin-off listing, the property management industry's median EBIT margin surpassed that of the real estate development industry, at 18.12% versus 16.67%. Compared with non-spin-off companies, the property management industry's median EBIT margin was lower in the three years before spin-off listing and the third year after spin-off listing. From the fourth year after spin-off listing, the property management industry's EBIT margin began to exceed that of non-spin-off companies.

Table 5.9 Comparison of EBIT margin trends

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	17.63	12.09	12.90	26.55	24.93
-2	20.60	12.43	13.72	25.58	25.46
-1	18.35	17.12	19.69	23.54	31.96
0	22.86	17.41	20.23	22.03	32.07
1	20.56	18.12	19.84	16.67	28.75
2	23.52	10.07	18.44	9.46	18.62
3	20.01	9.15	13.15	5.27	16.60
4	8.59	8.46	1.24	-10.89	4.79
5	2.44	8.54	-40.75	5.28	-7.07
6	6.04	6.04	-6.99	-6.99	-10.99

The EBIT margin of Country Garden Services and the property management industry exhibited a pattern of "initial synchronization followed by divergence" before and after spin-off listing. In the third year before spin-off listing (year -3), their margins were closely aligned, at 17.63% and 12.09%, respectively. From the second year before spin-off listing, Country Garden Services began to widen the gap, with a median EBIT margin of 20.60% (industry median 12.43%), peaking at 22.86% in the spin-off listing year (industry median 17.41%). In the first three years after spin-off listing, Country Garden Services sustained high margins above 20%, reaching a peak of 23.52% in the second year, while the industry median declined from 18.12% to 9.15%. The fourth year marked a turning point as its margin dropped sharply to 8.59% (industry median 8.46%), bottoming out at 2.44% in the fifth year (industry median 8.54%). In 2024, it rebounded to 6.04%, but remained below historical industry levels.

Overall, Country Garden Services experienced dramatic fluctuations of "leading, peaking,

and crashing," while the industry mean showed a relatively stable trend of "gradual rise followed by gradual decline." The margin gap, once as high as 13.45 percentage points (year 2), narrowed to parity by 2024.

The key elements of property service profitability are reflected in three dimensions: operating profit, goodwill impairment and accounts receivable impairment. The amount of operating profit depends on the industry competition structure and the core competitiveness of the enterprise itself. The provision for impairment of goodwill because the performance of acquisition projects is not up to expectations will also affect profitability. At the same time, due to the financial crisis of the parent company, the subsidiary needs to make provision for the impairment of its receivables, which also erode profits to a certain extent.

From the perspective of Porter's Five Forces model, industry structure is the core exogenous variable affecting profitability, with the strength of the five forces directly compressing or expanding profit margins. In competitive rivalry, the growth rate of managed area has slowed, but the number of competitors remains high, intensifying market share competition. Property management companies commonly adopt "low-price bidding" strategies, with monthly basic service fees dropping below the RMB 2/m2 threshold. Declining collection rates are a direct threat to profitability, with projects incurring losses when collection rates fall below 80%. Price wars combined with collection difficulties create dual pressure on margins. In bargaining power of buyers, buyers are divided into C-end (residents), B-end (developers), and G-end (government) segments, with increasing bargaining power. C-end residents increasingly refuse to pay services fees due to declining housing prices or quality issues. In the real estate downturn, B-end developers shift cash flow pressures by delaying property fee payments. G-end government contracts, while large in scale, involve long payment cycles and require advance funding for operations. Regarding bargaining power of suppliers, as a labor-intensive industry, property management has labor costs exceeding 60% of total costs. Stricter social security policies and annual minimum wage increases have driven a 12%–15% rise in labor costs in 2024. The property management industry faces systemic pressure from these forces, with structural factors collectively driving a trend toward "low-profit margins."

For value-added service structure, it shifts from reliance on real estate projects to deep C-end engagement. Community value-added services, with gross margins of 35%–66%, are a key profitability breakthrough. Yuexiu Services' community space service revenue surged 43.3% to RMB 932 million in 2023. China Merchants Property Operation & Service generated over RMB 50 million in live-streaming sales through its "Zhao Xiao Bo" platform. For non-residential business expansion, it transfers from scale-driven to high-quality segments.

Commercial residential and urban services have emerged as significant profit contributors, with non-residential formats offering high per-square-meter fees and stable collection rates. In 2023, China Merchants Property Operation & Service's non-residential managed area accounted for 61.9% of its total, with new contract values comprising 85.6%, focusing on financial institutions, universities, and urban services. Office properties and university properties are currently the most lucrative segments. Leading companies have developed specialized capabilities in these areas: China Merchants Property Operation & Service holds the top market share in financial institution property management; Yuexiu Services generated RMB 290 million in annual revenue from TOD property management, accounting for 22.5% of its total revenue.

The impact of mergers and acquisitions on net profit margin depends on the ability to screen targets and achieve integration synergies, the valuation and profitability of the targets, the risk of goodwill impairment from premium acquisitions, and the sustainability of the targets' earnings. The impact of mergers and acquisitions on net profit margin follows a "J-curve" pattern: short-term pressure from integration costs, followed by long-term profit release through synergies. The quality of M&A has shifted from a frenzy of scale expansion to a strategy focused on efficiency. The acquisition frenzy in recent years has led to severe "aftereffects," with many leading companies experiencing sharp net margin declines in 2023–2024 due to goodwill impairments and integration failures.

For goodwill impairment, overvalued acquisitions create profit erosion. Historical M&A deals have planted "impairment landmines," as the average valuation during the 2021 M&A peak reached a PE of 15–20 times, far exceeding the industry's actual profitability. When targets underperformed, large impairments followed. In 2023, A-Living booked RMB 430 million in impairment, Country Garden Services RMB 1.4–1.8 billion, and KWG Living RMB 300 million, directly eroding net profits. Regarding synergy effects, the realization of strategic complementarities is critical. The trap of cost synergy lies in the fact that the theoretically efficient "regional centralized management" often fails due to the geographical dispersion of projects, with some companies seeing headquarters management costs rise rather than fall after acquisitions because additional regional management centers must be established. Revenue synergies are rare, with few successful cross-selling cases. The industry must beware of "pseudo-synergies," such as Country Garden Services' acquisition of urban sanitation companies, which failed to integrate effectively with community space services.

Key Influencing Factors and Mechanisms of Country Garden Services' EBIT Margin During the 2018–2021 expansion period, related-party support boosted profits. Backed by Country Garden Group's project deliveries, over 60% of new managed area came from related

parties, with non-property owner value-added services achieving gross margins exceeding 40%, contributing over 30% to profits. Acquisitions enhanced performance, with the 2021 acquisitions of Justbon Services (RMB 4,800 million) and Manguo Environment (RMB 2,450 million) driving net profits to RMB 4,000 million. However, goodwill surged above RMB 12,000 million, setting the stage for subsequent impairments. The model's vulnerability lay in high growth reliance on real estate deliveries and acquisition performance commitments, with basic property management gross margins of only 15%–18%, far below promised acquisition targets.

In the 2022–2023 adjustment period, related-party bad debts created a financial burden, with RMB 2,590 million in related-party receivable impairments in 2023 due to Country Garden Group's liquidity crisis causing property fee defaults. Goodwill impairments triggered a cascade, with Justbon Services' project exits and Manguo Environment's performance declines leading to RMB 1,400–1,800 million in impairments, and Beautiful City E.S. recording RMB 406 million. Rigid cost structures squeezed margins: labor costs rose 12%–15%, but property fee increases lagged, reducing basic property management gross margins from 24.8% to 20.3% in 2023.

Some subsidiaries previously acquired by Country Garden Services failed to meet business expansion expectations, leading to declines in both revenue and profit. Country Garden Services engaged independent appraisers to assess goodwill, recalculating recoverable amounts. The value in use of cash-generating units such as Justbon Services, Caixin Services, Wuhan Xueyu, Beautiful City E.S., and City Media fell below their carrying amounts, resulting in total impairment provisions of RMB 4,441 million during 2022–2023 (see Table A5.20 in the Annex).

In the 2024 recovery period, impairment pressures eased, with related-party receivable balances reduced by RMB 450 million, no new impairment provisions, and partial reversals of prior provisions. Goodwill impairments decreased to RMB 990 million (over 30% reduction from 2023). Core business resilience emerged, with property management service revenue reaching RMB 25,900 million (+4.9%), accounting for 58.9% of total revenue. Community value-added service revenue reached RMB 4,200 million (+11.8%), with gross margins exceeding 35%. Three-Supplies and Property revenue grew to RMB 8,200 million (+25.1%). Technology-driven cost control and efficiency enhancement: AIoT technology reduces reliance on manual labor (e.g., cleaning robots achieving 500 hours of fault-free operation), improves operational efficiency across 1,768 projects, and optimizes the management expense ratio.

Customer satisfaction: A critical foundation for sustainable development. Country Garden

Services developed a “Five Good” service system focusing on service personnel, content, platforms, standards, and community networks, creating a “good housekeeper, good environment, good lifestyle, good platform, good community” framework to enhance service quality. A “customer-oriented” service philosophy was deepened, with a comprehensive customer satisfaction management system established, including dedicated staff for 24-hour complaint handling and full-coverage satisfaction surveys. The “Community Renewal” initiative was actively implemented, with nearly RMB 400 million invested in 2023 across 1,594 projects to upgrade community space infrastructure, including roads, recreational facilities, and smart community systems. Safety measures protected customer lives and assets, with 24,000 potential risk sources rectified in 2023. For equipment and facilities, 2.433 million inspection and maintenance orders and 5.319 million repair orders were completed.

With Digital operations, it transits from a cost center to an efficiency driver. Technology reduces marginal costs, with leading companies leveraging AIoT to enhance per-person efficiency. China Merchants Property Operation & Service’s “full business opportunity to full business chain” digital closed loop increased opportunity data collection by nearly 200%. Data-driven precision management has been applied. Onewo’s “Butterfly City Model” establishes a 3-kilometer-radius service circle to optimize project density, achieving economies of scale in facility sharing and labor allocation.

Six years after the spin-off of Country Garden Services, the scale effect of operation began to emerge, the core competitiveness continued to strengthen, and the impairment of goodwill of the acquired projects and the receivables of the parent company were gradually completed. EBIT margin of Country Garden Services continued to improve, with the median increasing from 2.44% in the fifth year post-spin-off to 6.04% in the sixth year post-spin-off.

The EBIT margin of the property management industry exhibits a clear trend of rising before spin-off listing and declining afterward (see Table A5.21 in the Annex). From three years pre-spin-off to the listing year (years -3 to 0), the industry mean EBIT margin increased steadily from 12.39% to 18.96%, with the median rising from 12.09% to 17.41%, indicating sustained profitability growth. In the listing year (year 0), the margin peaked at 18.96%, but the standard deviation widened to 10.17, reflecting increased inter-company disparities. In the first-year post-spin-off (year 1), the mean margin remained high at 17.38%, but in the second year (year 2), it plummeted to 3.96%, with an extreme negative value of -68.43% and a standard deviation surging to 22.37, indicating significant industry divergence. From years 3 to 6 post-listing, the mean margin stabilized at a lower range of 4.25%–6.87%, with the median between 6.04% and 9.15%. The 25th percentile frequently entered negative territory (e.g., -1.27% in year 4),

suggesting that over 25% of companies incurred losses.

Overall, post-spin-off industry margins declined by approximately 10 percentage points from pre-listing means, with significantly heightened volatility, exhibiting a pattern of "sustained pre-listing growth, sharp post-listing decline, and long-term low-level fluctuation."

The EBIT margin of the property management industry shows significant structural differences before and after spin-off listing. The industry performed steadily pre-spin-off, with a mean margin of 16.29%, a median of 17.13%, and a relatively low standard deviation of 5.75, indicating limited inter-company profitability variation. Post-spin-off, the mean margin fell to 3.96%, but the median remained relatively high at 10.07%, while the standard deviation surged to 22.37, with a minimum of -68.43%, reflecting severe losses for some companies.

This pattern of "declining mean, stable median, and surging dispersion" reflects a post-spin-off industry trend of "the strong getting stronger and the weak getting weaker."

Refer to Table A5.22 in the Annex, for real estate companies, in the second and third years before spin-off listing (years -2 and -3), the Mean of EBIT margin slightly increased from 26.31% to 27.67%. Thereafter, it exhibited a consistent downward trend, turning negative from the second-year post-spin-off listing (-1.77%). Median: From three years before listing (year -3), the EBIT margin showed a continuous decline, turning negative in the fourth-year post-spin-off listing (-10.89%). SD: The overall trend shows increasing dispersion, with industry margins becoming more divergent. During the three years prior to the spin-off, SD fluctuated within the range of 9.96% to 13.20%. After the spin-off, SD gradually expanded from 11.88% to 110.02%.

5.3.3 Operational capability

The Total Asset Turnover Ratio (TAT) is an efficiency metric that measures a company's ability to generate operating performance from its total assets, calculated as TAT = Sales Revenue / Average Total Assets. TAT can be decomposed into current asset turnover and non-current asset turnover.

Current asset turnover reflects the turnover efficiency of cash, accounts receivable, and inventory. Cash management efficiency: Property management companies generally maintain high cash reserves but lack efficient investment channels, resulting in a low contribution of cash turnover. Accounts receivable turnover indicates the efficiency of customer payment collection. Key drivers include customer credit policies (credit periods and standards), collection processes, customer quality and payment capacity, and industry practices. Inventory turnover reflects inventory management efficiency. Influencing factors include supply chain management (e.g., procurement, production, warehousing, logistics), demand forecasting accuracy, product life

cycle and marketability, production model, and inventory mix. Given the nature of the property management industry, inventory constitutes a small proportion of assets and has a limited impact on TAT.

Non-current asset turnover mainly covers the turnover of fixed and intangible assets. Fixed asset turnover is the core of non-current asset turnover and measures the productivity of long-term investments. Key factors include capacity utilization, asset structure and efficiency, technological advancement, and process optimization. Property management is an asset-light industry with a low fixed asset proportion, but investments in smart equipment may enhance long-term efficiency. Intangible asset turnover reflects the efficiency with which intangibles such as brands, patents, and goodwill generate operating revenue. In property services, goodwill arising from project acquisitions is the main component of intangible assets.

TAT is not an isolated metric; it results from the interplay of corporate strategic choices (e.g., asset structure, vertical integration, outsourcing), operational efficiency (e.g., supply chain management, production management, sales collection management, inventory management), and external environments (e.g., industry and economic conditions).

Inter-industry comparisons reveal significant differences. The property management industry's asset turnover ratio is substantially higher—typically over three times—that of the real estate development industry and non-spin-off companies (refer to Table 5.10). Country Garden Group's median TAT remained within the 0.22–0.28 range, the real estate development industry within 0.17–0.23, and non-spin-off companies within 0.18–0.27.

Table 5.10 Comparison of total asset turnover ratio trends

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-2	1.21	0.70	0.32	0.23	0.27
-1	1.05	0.78	0.28	0.23	0.26
0	1.04	0.74	0.28	0.22	0.23
1	1.08	0.71	0.28	0.21	0.18
2	0.72	0.79	0.24	0.20	0.19
3	0.59	0.75	0.26	0.20	0.21
4	0.61	0.71	0.23	0.17	0.21
5	0.61	0.86	0.26	0.19	0.17
6	0.63	0.63	0.22	0.22	0.19

Industry differences in total asset turnover arise from the characteristics of business lines. Real estate business is characterized by "heavy assets, high leverage, high risk and high returns". Heavy assets operation and long project delivery cycle will inevitably bring low asset turnover. Property management services are characterized by "light assets, stable cash flow and high customer retention". Light assets operation and on-time customer cash flow collection make

asset turnover naturally decrease.

The TATs of Country Garden Services and the property management industry exhibit divergent trajectories before and after spin-off listing. In the two years prior to the spin-off, Country Garden Services' TAT significantly exceeded the industry median, reaching 1.21 in year -2 (industry 0.70) and 1.05 in year -1 (industry 0.78). In the spin-off year (year 0), Country Garden Services' TAT slightly declined to 1.04, while the industry median fell to 0.74. In the first year post-spin-off (year 1), Country Garden Services' TAT rebounded to 1.08, with the industry median slightly declining to 0.71. The second-year post-spin-off marked a critical turning point, with Country Garden Services' TAT plummeting to 0.72, falling below the industry median (0.79) for the first time. Thereafter, its TAT continued to decline (from 0.59 in year 3 to 0.63 in year 6), while the industry median rebounded to 0.86 in year 5, forming a pattern of "leading then lagging" post-spin-off.

The decline in Country Garden Services' TAT resulted from the combined effects of an aggressive expansion strategy and industry cyclical downturns. Four key factors influenced the TAT: slowing operating revenue growth, cash accumulation, surging accounts receivable, and intangible asset accumulation (see Table A5.23 in the Annex).

First, operating revenue growth slowed, dropping to single-digit rates from 2022. The parent company's real estate deliveries contracted, third-party expansion projects yielded low profit margins and required "capital-backed entry," and value-added services faced intense competition with diminishing marginal revenue contributions. Second, cash accumulation increased. Cash holdings reached RMB 15,215 million in 2020 and RMB 17,152 million in 2024, accounting for 49% and 24% of total assets in those respective years, reflecting a lack of effective investment opportunities and efficient utilization. Third, accounts receivable surged, reaching RMB 22,146 million in 2022 (32% of total assets, compared to 14% in 2018), growing faster than operating revenue. The property management industry broadly faced declining collection rates, extending accounts receivable turnover days. Finally, intangible assets accumulated from project acquisitions. In 2021, intangible assets amounted to RMB 27,945 million—of which over 70% was acquired goodwill—accounting for 42% of total assets. This shifted the asset structure from "light" to "heavy." Project acquisitions expanded the asset base but lagged in integration efficiency, and revenue growth failed to keep pace with the asset expansion.

Despite the post-spin-off decline in Country Garden Services' asset TAT, a gradual recovery began in 2022, This recovery is closely linked to the centralized management of its M&A projects and the enhanced asset utilization efficiency driven by digital and intelligent

technology applications.

The implementation of the "Local Plan" and "Star Cluster Plan" integrated acquired projects into localized, centralized management and consolidated adjacent projects for operational efficiency. A lean digital transformation was promoted to enhance service quality and management efficiency. Existing business operations, processes, and business models were streamlined. Every step is supported by corresponding digital solutions. In 2023, R&D investment reached approximately RMB 320 million, primarily for digitalization and AIoT applications.

Digital empowerment supports customer-centric smart property services. As management scale and customer demands grow, technical challenges intensify. Building a robust technology platform, including data, algorithms, and security management, became critical. Country Garden Services' digital core capability development focused on three areas: enhancing customer experience, improving overall operational efficiency, and leveraging data and digital sharing to support business innovation and model upgrades. A Digital Committee was established, alongside a dedicated digital R&D team, forming a comprehensive digital organizational structure. Digitalization and intelligence were advanced in areas such as property security, cleaning, and equipment maintenance. A leading industry Customer Experience Management (CEM) digital platform was developed to provide personalized, professional, and refined services, embracing technology to enhance customer experience and service quality.

In October 2022, the Financial Shared Service Center's accounts payable system, BIP policy platform, Property Fee Management System (BOSS), and Legal Affairs Management System were rolled out nationwide. In 2023, the Management Reporting System was fully implemented, integrating front-end business systems for the first time, achieving business-finance integration and T+1 daily operational reporting, providing valuable decision-making support for the group.

Six years after the spin-off of Country Garden Service, the impairment of goodwill of the acquired project and the impairment of accounts receivable of the parent company were gradually completed, the scale effect of operation began to emerge, the digital operation capability continued to improve, and the core competitiveness continued to strengthen. Total asset turnover of Country Garden Services continued to improve, with the median increasing from 0.59 in the third year after the spin-off to 0.63 in the sixth year after the spin-off.

Research indicates that spin-off listing did not significantly impact the TAT of the property management industry, with operational capability remaining relatively stable (refer to Table A5.24 in the Annex). The property management industry's asset TAT remained relatively stable

before and after spin-off listing, with the mean fluctuating between 0.75 and 0.85. From two years before spin-off listing to the spin-off year (years -2 to 0), the industry mean rose from 0.78 to 0.85 in year -1, then fell to 0.76 in the listing year. Post-spin-off, the ratio fluctuated narrowly between 0.75 and 0.83, peaking at 0.83 in year 3 before gradually declining. The median (p50) remained within 0.63–0.86, and the 75th percentile within 0.89–1.08, indicating stable industry-wide operational efficiency. In terms of dispersion, the standard deviation remained stable between 0.23 and 0.37 before and after spin-off, suggesting minimal inter-company operational efficiency differences post-spin-off. Overall, spin-off listing did not significantly affect the property management industry's asset turnover efficiency, with operational capability remaining relatively stable.

Before and after spin-off listing, the real estate development industry's asset TAT showed minimal change, with a slight decline (refer to Table A5.25 in the Annex). The mean decreased from 0.24 pre-spin-off to 0.18 post-spin-off, and the median from 0.23 to 0.17. The standard deviation remained stable between 0.05 and 0.09, indicating low volatility among real estate development companies.

Summary

In the spin-off listing year and the three years following, valuation multiples such as price-to-earnings ratios of the subsidiary were relatively high, enabling significant equity and convertible bond financing. Post-spin-off, the asset-liability ratio and interest-bearing debt ratio of the subsidiary continued to decline, optimizing the capital structure.

After the spin-off listing, the independence of the board of directors of the subsidiary is enhanced, and the operating cash flow is relatively stable. Although related party transactions with the parent company have increased, they are basically isolated from the parent company's financial crisis and even support the parent company in terms of employee placement and capital. The implementation of incentive plan has stimulated the expansion of business scale, but its effect on operating profit margin remains to be tested.

Post-spin-off, business scale continued to expand, with a healthier business structure. However, operating profits declined steadily from the fourth year post-spin-off. The TAT remained relatively stable before and after spin-off listing but was significantly higher than that of the real estate development industry and non-spin-off companies.

Chapter 6: Research Conclusions, Discussion, and Limitations

6.1 Research conclusions

The motivations for real estate enterprises to spin off and list their property services subsidiaries are driven primarily by financing needs and managerial incentive considerations, while the motivation of business focus is relatively weak. After the spin-off listing, both capital market financing and equity-based incentives for senior management increase substantially. Following the spin-off, although the parent company continues to incubate other businesses and thus shows limited improvement in business focus, the spin-off listing enhances the subsidiary's degree of business concentration and specialization.

After the spin-off listing, property management companies obtain higher market valuations than their parent companies. High valuations enable property management companies to raise substantial funds, which in turn promote project acquisitions, while increased acquisitions further push up stock valuations. With equity financing as the primary financing channel, the asset–liability ratios of property management companies decline significantly after the spin-off listing.

From the perspective of the internal capital market, after the spin-off, the subsidiary obtained independent listing status and the independence of the board of directors was enhanced. Subsidiaries have independent cash flow rights, and the parent company cannot dispose of the cash flow of listed subsidiaries at will. However, accounts receivable arising from operating transactions continue to exist, and related transactions cannot be completely eliminated. When the parent real estate group encounters financial difficulties, property services subsidiaries provide support by arranging employment for certain core personnel of the real estate group and offering financial assistance.

As independently listed entities, property management companies obtain their own equity incentive instruments after the spin-off. In the first few years following the spin-off listing, equity incentives play an important role in promoting scale expansion. In later years, equity incentives are expected to contribute to profit growth, although this effect has not yet been empirically verified.

After the spin-off listing, operating scale grows rapidly and business structures become

more optimized; however, industry-wide profitability continues to decline, and no significant improvement in operating efficiency is observed.

Following the spin-off listing, the property management industry achieves rapid growth in business scale and a more optimized business structure. Supported by substantial financing obtained through spin-off listings, property management companies engage in large-scale project acquisitions, with continuous expansion of independent third-party property projects and rapid growth in operating performance. Benefiting from brand effects, property management companies expand into urban services and other business segments, achieving a degree of related diversification and a more rational business structure. From the fifth year after the spin-off listing onward, industry growth begins to slow, and firms gradually shift their focus toward improving profitability and operating efficiency.

After the spin-off listing, earnings before interest and taxes (EBIT) margins in the property management industry continue to decline, whereas Country Garden Services experiences a transition from declining EBIT margins to a phase of gradual recovery. Intensified industry competition, provisions for bad debts on accounts receivable from related real estate parties, and goodwill impairment arising from acquisitions at high valuations jointly contribute to the sustained decline in industry EBIT margins. As scale effects materialize, negative impacts from bad debt provisions and goodwill impairment diminish, and operating capabilities improve, the profitability of Country Garden Services begins to recover.

Spin-off listings do not exert a significant impact on the operating efficiency of the property management industry as a whole; however, Country Garden Services undergoes a process in which operating efficiency declines and then gradually improves. After the spin-off listing, large-scale project acquisitions lead to substantial growth in operating revenue and total assets, resulting in a continuous decline in asset turnover. With the implementation of centralized management of acquired projects and the application of digital and intelligent tools, operating efficiency improves steadily and asset turnover begins to recover.

6.2 Discussion

The motivations for spin-off listings are closely related to the strategic objectives of parent companies and their respective stages of development. A development path that prioritizes scale expansion first and subsequently focuses on improving profitability and operating efficiency reflects specific strategic planning choices.

When the industry of the parent company faces development bottlenecks or financial

distress, spin-off listings can help preserve the integrity and continuity of subsidiary businesses.

After spin-off listings and subsequent financing, the mode of growth becomes crucial. Expansion through acquisitions and other forms of external growth can rapidly increase firm scale, but such growth is often difficult to sustain and may erode operating profits. In contrast, internal growth based on enhancing core competitiveness requires a longer development period, but tends to deliver more stable and sustainable growth in both scale and profitability.

6.3 Limitations

First, as a study focused on financial management, this thesis primarily evaluates the impact of spin-off listings on operating and managerial performance and does not quantitatively examine the effects on shareholder wealth.

Second, as discussed above, there are substantial differences in asset scale and operating revenue between parent companies in the real estate industry and subsidiaries in the property management industry. Moreover, at the time of spin-off listings, the real estate industry is typically in a mature stage, whereas the property management industry is in a growth stage. Therefore, this thesis focuses mainly on the economic consequences of spin-off listings for subsidiaries, with limited analysis of the economic consequences for parent companies.

[This page is deliberately left blank.]

Bibliography

Ahn, S., & Denis, D. J. (2004). Internal capital markets and investment policy: evidence from corporate spinoffs. *Journal of Financial Economics*, *71*(3), 489-516.

Ahn, S., & Walker, M. D. (2007). Corporate governance and the spinoff decision. *Journal of Corporate Finance*, *13*(1), 76-93.

Allen, J. W. (2001). Private information and spin-off performance. *The Journal of Business*, *74*, 281-306.

Allen, J. W., Lummer, S. L., Mcconnell, J. J., & Reed, D. K. (1995). Can takeover losses explain spin-off gains. *Journal of Financial and Quantitative Analysis*, *30*(4), 465-485.

Allen, J. W., & Mcconnell, J. J. (1998). Equity carve-outs and managerial discretion. *The Journal of Finance*, *53*(1), 163-186.

Amihud, Y., & Lev, B. (1981). Risk reduction as a managerial motive for conglomerate mergers. *The Bell Journal of Economics*, *12*, 605-617.

Aron, D. J. (1991). Using the capital market as a monitor corporate spinoffs in an agency framework. *The RAND Journal of Economics*, *22*, 505-518.

Baker, M., & Wurgler, J. (2002). Market timing and capital structure. *The Journal of Finance*, *42*(1), 1-32.

Bengt, H., & Jean, T. (1993). Market liquidity and performance monitoring. *Journal of Political Economy*, *101*(4), 678-709.

Bergh, D. D., Johnson, R. A., & Dewitt, R. L. (2008). Restructuring through spin-off or sell-off: transforming information asymmetries into financial gain. *Strategic Management Journal*, *29*(2), 133-148.

Brusco, S., & Panunzi, F. (2005). Reallocation of corporate resources and managerial incentives in internal capital markets. *European Economic Review*, *49*, 659-681.

Burch, T. R., & Nanda, V. (2003). Divisional diversity and the conglomerate discount: evidence from spinoffs. *Journal of Financial Economics*, *70*(1), 69-98.

Campbell, D. T. (1969). Reforms as experiments. *Urban Affairs Review*, *7*, 133-171.

Chai, D., Lin, Z., & Veld, C. (2017). Value-creation through spin-offs: Australian evidence. *Australian Journal of Management*, *43*, 353-372.

Chemmanur, T. J., Krishnan, K., & Nandy, D. K. (2014). The effects of corporate spin-offs on productivity. *Journal of Corporate Finance*, *27*, 72-98.

Chemmanur, T. J., & Yan, A. (2004). A theory of corporate spin-offs. *Journal of Financial Economics*, *72*(2), 259-290.

Chen, H. L., & Guo, R. J. (2005). On corporate divestiture. *Review of Quantitative Finance and Accounting*, *24*, 399-421.

Chen, M., Zeng, A., & Wang, Z. (2023). 分拆上市独立性与价值效应研究—以首家“A拆A”上市公司为例 [Research on the independence and value effect of spin-off listing]. *Communication of Finance and Accounting*, (16), 3-8.

Clayton, M. J., & Reisel, N. (2013). Value creation from asset sales: New evidence from bond and stock markets. *Journal of Corporate Finance*, *22*, 1-15.

Comment, R., & Jarrell, G. A. (1995). Corporate focus and stock returns. *Journal of Financial Economics*, *37*, 67-87.

Country Garden. (2018). *Listing documents of country garden service*. Country Garden.

Creswell, J. W. (2006). *Qualitative inquiry and research design: Choosing among five approaches*. Sage Publications.

Daley, L., Mehrotra, V., & Sivakumar, R. (1997). corporate focus and value creation evidence from spinoffs. *Journal of Financial Economics*, *45*, 257-281.

Dann, L. Y., & Mikkelson, W. H. (1984). Convertible debt issuance, capital structure change and financing-related information: Some new evidence. *Journal of Financial Economics*, *13*, 157-186.

Dasilas, A., & Leventis, S. (2018). The performance of European equity carve-outs. *Journal of Financial Stability*, *34*, 121-135.

Datta, S., D'mello, R., & Iskandar-Datta, M. (2009). Executive compensation and internal capital market efficiency. *Journal of Financial Intermediation*, *18*, 242-258.

Deeksha, G., Rahul, K., & Chattopadhyay, S. (2022). The impact of corporate spin-offs on shareholders' wealth: Empirical evidence from India. *Cogent Economics & Finance*, *10*, 1-20.

Deng, J., Zeng, J., & Rao, M. (2020). 房地产企业分拆上市的资本逻辑-以碧桂园为例 [Capital logic of spin-off listing of real estate enterprises - taking Country Garden as an example]. *Finance and Accounting Monthly*, (19), 156-160.

Deng, X. (2004). 整体上市的方式比较 [Comparison of overall listing methods]. *The Theory and Practice of Finance and Economics*, (05), 59-61.

Denis, D. J., Denis, D. K., & Sarin, A. (1997). Agency problems, equity ownership, and corporate diversification. *Journal of Finance*, *52*, 135-160.

Desai, H., & Jain, P. C. (1999). Firm performance and focus long-run stock market performance following spin-offs. *Journal of Financial Economics*, *54*, 75-101.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, *14*, 57-74.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review*, *14*, 532-550.

Feng, Y., Nandy, D. K., & Tian, Y. S. (2015). Executive compensation and the corporate spin-off decision. *Journal of Economics and Business*, *77*, 94-117.

Frank, K. E., & Harden, J. W. (2001). Corporate restructurings: A comparison of equity carve-outs and spin-offs. *Journal of Business Finance & Accounting*, *28*, 503-529.

Fu, H. (2002). Information asymmetry and the market reaction to equity carve-outs. *Capital Markets: Market Microstructure*, *1*, 1-31.

Gertner, R. H., Powers, E. A., & Scharfstein, D. S. (2002). Learning About Internal Capital Markets from Corporate Spinoffs. *Journal of Finance*, *57*(2), 2479-2506.

Gertner, R. H., Scharfstein, D. S., & Stein, J. C. (1994). INTERNAL VERSUS EXTERNAL CAPITAL MARKETS. *The Quarterly Journal of Economics*, *109*(4), 1211-1230.

Glesne, C. E. (1992). *Becoming qualitative researchers: An introduction*. Longman.

Guo, H., & Wan, D. (2010). 分拆上市相关研究综述 [Review of research on spin-off listing]. *Securities Market Herald*, (02), 61-67.

Guosheng Securities Research Institute. (2018). *掘金物业万亿蓝海 [Nuggets trillion property management blue ocean]*. Guosheng Securities Research Institute.

Habib, M. A. (1997). Spin-offs and information. *Journal of Financial Intermediation*, *6*, 153-176.

Harris, M., & Raviv, A. (1996). The capital budgeting process Incentives and information. *The Journal of Finance*, *4*, 1139-1174.

Hite, G. L., & Owers, J. E. (1983). Security price reactions around corporate spin-off announcements. *Journal of Financial Economics*, *12*, 409-436.

Hite, G. L., Owers, J. E., & Rogers, R. C. (1987). The market for interfirm asset sales Partial sell-offs and total liquidations. *Journal of Financial Economics*, *18*, 229-252.

Hogan, K. M., & Olson, G. T. (2004). The pricing of equity carve-outs during the 1990s. *The Journal of Financial Research*, *27*(4), 521-537.

Holmstrom, B. R. (1979). Moral hazard and observability. *The Bell Journal of Economics*, *10*(1), 74-91.

Huang, J. M., Li, L., & Wang, W. (2011). 案例研究：从好的故事到好的理论——中国企业管理案例与理论构建研究论坛（2010）综述 [Case study: From good stories to good theories-A review of the China forum on enterprise management cases and theory construction (2010)]. *Management World*, (2), 118-126.

Huson, M. R., & Mackinnon, G. (2003). Corporate spinoffs and information asymmetry between investors. *Journal of Corporate Finance*, *9*(4), 481-503.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance and takeovers. *American Economic Review*, *76*, 323-329.

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.

Johnston, W. J., Leach, M. P., & Liu, A. H. (1999). Theory testing using case studies in business-to-business research. *Industrial Marketing Management*, *28*, 201-213.

Khan, A. Q., & Mehta, D. R. (1996). Voluntary divestitures and the choice between sell-offs and spin-offs. *The Financial Review*, *31*, 885-912.

Krishnaswami, S., & Subramaniam, V. (1999). Information asymmetry, valuation, and the corporate spin-off decision. *Journal of Financial Economics*, *53*, 73-112.

Lang, L., Poulsenb, A., & Stulz, R. (1995). Asset sales, firm performance, and the agency costs of managerial discretion. *Journal of Financial Economics*, *37*, 3-37.

Lang, L. H. P., & Stulz, R. M. (1994). Tobin's q, Corporate Diversification, and Firm Performance. *Journal of Political Economy*, *102*, 1248-1280.

Larsson, R. (1993). Case survey methodology: Quantitative analysis of patterns across case studies. *Academy of Management Journal*, *36*, 1515-1546.

Law, J., & Yu, W. (2018). Corporate spinoffs and executive compensation. *Frontiers of Business Research in China*, *12*, 1-25.

Lewellen, W. G. (1971). A pure financial rationale for the conglomerate merger. *Journal of Finance*, *26*, 521-537.

Li, L., Lin, K., & Tang, H. (2012). 我国上市公司海外分拆的超额收益研究 [An empirical study of excess return from Chinese listed companies' equity carve-outs in overseas capital markets]. *Journal of Huaqiao University*, (01), 80-86.

Li, L., Liu, Y., & Feng, Y. C. (2020). *管理案例研究：方法与应用 [Management case study: Methods and applications]*. Peking University Press.

Lin, X., Tang, M., Chen, L., & Nie, Y. (2015). 分拆上市的价值创造：来自中国市场的实证研究 [Value creation in spin-off listings: An empirical study from the Chinese market]. *South China Journal of Economics*, (07), 47-60.

Liu, Y., Tang, D., Yu, K., & X., J. (2012). 境内上市公司创业板分拆上市的价值创造机制 [Value creation mechanism of GEM spin-off listing of domestic listed companies]. *Journal of Nanjing Audit University*, *9*(01), 4-11.

Lv, J., Liu, Y., Huang, Z., & Zheng, L. (2023). 上市公司分拆上市的股价效应探究 [Research on the stock price effect of the spin-off listing of listed companies]. *Journal of Finance and Economics*, (02), 25-40.

M., H., Hulburt, J. a. M., & Woolridge, J. R. (2002). Value creation from equity carve-outs. *Financial Management*, *31*(1), 83-100.

Madura, J., & Nixon, T. D. (2002). The long-term performance of parent and units following equity carve-outs. *Applied Financial Economics*, *12*, 171-181.

Masulis, R. W., & Korwar, A. N. (1986). Seasoned equity offerings an empirical investigation. *Journal of Financial Economics*, *15*, 91-118.

Matsusaka, J. G., & Nanda, V. (2002). Internal capital markets and corporate refocusing. *Journal of Financial Intermediation*, *11*, 176-211.

Mcconnell, J. J., & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, *27*, 595-612.

Meredith, J. R. (1998). Building operations management theory through case and field research. *Journal of Operations Management*, *16*, 441-454.

Meyer, M., Milgrom, P., & Roberts, J. (1992). Organizational prospects, influence costs, and ownership changes. *Journal of Economics & Management Strategy*, *1*, 9-35.

Michaely, R., & Shaw, W. H. (1995). The choice of going public- spin-offs vs. carve-outs. *Financial Management*, *24*(3), 5-21.

Miles, J. A., & Rosenfeld, J. D. (1983). The effect of voluntary spin-off announcements on shareholder wealth. *Journal of Finance*, *38*, 1597-1606.

Morck, R., Shleifer, A., & Vishny, R. W. (1988). Management ownership and market valuation. *Journal of Financial Economics*, *20*, 293-315.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, *13*, 187-221.

Nanda, V. (1991). On the good news in equity carve-outs -nanda. *The Journal of Finance*, *46*, 1717-1737.

Nixon, T. D., Roenfeldt, R. L., & Sicherman, N. W. (2000). The choice between spin-offs and sell-offs. *Review of Quantitative Finance and Accounting*, *14*, 277-288.

Oliveira, I., Figueiredo, J., Cardoso, A., & Cunha, M. N. (2023). Empirical evidence of the parent company's influence on spin-off: from creation to performance. *International Review of Economics*, *70*, 379-394.

Otsubo, M. (2013). Value creation from financing in equity carve-outs: Evidence from Japan. *Journal of Economics and Business*, *68*, 52-69.

Pagano, M., Panetta, F., & Zingales, L. (1998). Why do companies go public An empirical analysis. *The Journal of Finance*, *53*(1), 27-64.

Perotti, E., & Rossetto, S. (2007). Unlocking value: Equity carve outs as strategic real options. *Journal of Corporate Finance*, *13*(5), 771-792.

Philip, G., & Berger, E. O. (1995). Diversification's effect on firm value. *Journal of Financial Economics*, *37*, 39-65.

Powers, E. A. (2001). Spinoffs, Selloffs and Equity Carveouts: An Analysis of Divestiture Method Choice. In B. E. Eckbo (Ed.), *Corporate finance: Governance* (pp. 391-440). Elsevier.

Powers, E. A. (2003). Deciphering the motives for equity carve-out. *The Journal of Financial Research*, *26*(1), 31-50.

Prezas, A. P., & Simonyan, K. (2015). Corporate divestitures: Spin-offs vs. sell-offs. *Journal of Corporate Finance*, *34*, 245-263.

Prezas, A. P., Tarimcilar, M., & Vasudevan, G. K. (2000). The pricing of equity carve-outs. *The Financial Review*, *35*, 123-138.

Rajan, R., Servaes, H., & Zingales, L. (2000). The cost of diversity the diversification discount and inefficient investment. *The Journal of Finance*, *55*(1), 35-80.

Rosenfeld, J. D. (1984). Additional evidence on the relation between divestiture announcements and shareholder wealth. *Journal of Finance*, *39*, 1437-1448.

Sapienza, H. J., Parhankangas, A., & Autio, E. (2004). Knowledge relatedness and post-spin-off growth. *Journal of Business Venturing*, *19*, 809-829.

Scharfstein, D. S., & Stein, J. C. (2000). The dark side of internal capital markets divisional rent-seeking and inefficient investment. *The Journal of Finance*, *6*, 2537-2564.

Schipper, K., & Smith, A. (1986). A comparison of equity carve-outs and seasoned equity offerings-Share price effects and corporate restructuring-schipper. *Journal of Financial Economics*, *15*, 153-186.

Schipper, K., & Smith, A. J. (1983). Effects of recontracting on shareholder wealth: The case of voluntary spin-offs. *Journal of Financial Economics*, *12*, 437-467.

Semadeni, M., & Cannella, A. A. (2011). Examining the performance effects of post spin-off links to parent firms: should the apron strings be cut? *Strategic Management Journal*, *32*, 1083-1098.

Servaes, H. (1996). The value of diversification during the conglomerate merger wave. *Journal of Finance*, *51*, 1201-1225.

Shin, H. H., & Stulz, R. M. (1998). Are internal capital markets efficient. *The Quarterly Journal of Economics*, *13*(2), 531-552.

Slovin, M. B., & Sushka, M. E. (1998). The economics of parent-subsidiary mergers: An empirical analysis. *Journal of Financial Economics*, *49*, 255-279.

Slovin, M. B., Sushka, M. E., & Ferraro, S. R. (1995). A comparison of the information conveyed by equity carveouts, spinoffs and asset sell-offs. *Journal of Financial Economics*, *37*, 89-104.

Stein, J. C. (1997). Internal capital markets and the competition for corporate resources. *The Journal of Finance*, *52*(1), 111-133.

Stein, J. C. (2001). *Agency, information and corporate investment*. NBER.

Stulz, R. M. (1990). Managerial discretion and optimal financing policies. *Journal of Financial Economics*, *26*, 3-27.

Trochim, W. M. (1989). Outcome pattern matching and program theory. *Evaluation and Program Planning*, *12*, 355-366.

Veld, C., & Veld-Merkoulova, Y. V. (2004). Do spin-offs really create value? The European case. *Journal of Banking & Finance*, *28*(5), 1111-1135.

Veld, C., & Veld-Merkoulova, Y. V. (2009). Value Creation Through Spin-Offs: A Review of the Empirical Evidence. *International Journal of Management Reviews*, *11*(1), 85-110.

Vijh, A. M. (1999). Long-Term Returns from Equity Carve-Outs-vijh. *Journal of Financial Economics*, *51*, 273-308.

Vijh, A. M. (2002). The positive announcement-period returns of equity carveouts asymmetric information or divestiture gains. *Journal of Business*, *75*, 153-190.

Vitkova, V., Tian, S., & Sudarsanam, S. (2023). Allocative efficiency of internal capital markets: Evidence from equity carve-outs by diversified firms. *International Review of Financial Analysis*, *86*, 1-19.

Wang, F., & Zhou, C. (2009). 多元化程度与内部资本市场效率-基于分部数据的多案例研究 [Diversification degree and internal capital market efficiency]. *Management World*, (04), 153-161.

Wang, Y. F., & Wang, Y. (2025). 境内分拆上市的原则、价值与路径 [Principles, values and ways of domestic spin-off listing]. *Communication of Finance and Accounting*, (18), 22-26.

Weiss, R. S. (1995). Learning from strangers : the art and method of qualitative interview studies. *Contemporary Sociology*, *24*, 420.

Weston, J. F. (1970). The nature and significance of conglomerate firms. *St. John's Law Review*, *44*, 66-80.

Williamson, O. E. (1975). *Markets and hierarchies analysis and antitrust implications*. The Free Press.

Wulf, J. (2002). Internal Capital Markets and Firm-Level Compensation Incentives for Division Managers. *Journal of Labor Economics*, *20*, S219-S262.

Wulf, J. (2009). Influence and inefficiency in the internal capital market. *Journal of Economic Behavior & Organization*, *72*(1), 305-321.

Xiao, A., & Geng, J. (2019). 企业分拆上市的动因及绩效研究 [Research on the motivation and performance of enterprise spin-off listing]. *Communication of Finance and Accounting*, (11), 52-56.

Yan, E., & Lu, H. (2025). 分拆上市对 IPO 定价效率的影响研究 [Research on the impact of equity carve-outs on IPO pricing efficiency]. *Chinese Journal of Management*, *22*(8), 1575-1584.

Yin, R. K. (1994). *Case study research: Design and methods, applied social research*. Sage Publications.

Yin, R. K. (2018). *Case study research and applications: Design and methods*. Sage Publications.

Yu, H. (2011). 我国上市公司分拆上市的股价效应研究 [Research on stock price performance of China's listed companies to split subsidiaries to IPO]. *Journal of Harbin University of Commerce*, (02), 74-80.

Zhao, X. (2020). 分拆上市能否创造价值？基于用友网络分拆畅捷通上市的案例 [Can spin-off create value? A case study based on UFIDA network's spin-off of chanjet for listing]. *Communication of Finance and Accounting*, *16*(2), 98-102.

Webliography

National Bureau of Statistic of China. (2024, Janurary 17). *Overview of the national real estate market in 2024*. NBS. Retrieved May 1, 2025, from https://www.stats.gov.cn/xxgk/sjfb/zxfb2020/202501/t20250117_1958328.html

National Bureau of Statistic of China. (2025, May 1). *Annual indicators*. NBS. Retrieved May 1, 2025, from https://data.stats.gov.cn/english/easyquery.htm?cn=C01

[This page is deliberately left blank.]

Annex: Annex Tables and Figures

Table A4.1 Financing types and outstanding amounts of Country Garden (2018, Billion RMB)

S/N	Item	Amount
1	Share capital	28
2	Convertible bonds	13
3	Corporate bonds	42
4	Senior notes	42
5	Bank loans	232
	Total	357

Table A4.2 Regulatory measures for the real estate industry (As of 2022)

Regulatory channels	Regulatory measures	Regulatory goals
Residents	Strict check on home purchase qualifications Limitation on purchases, sales, loans, and prices	Reduction in customers' purchasing power
Real estate developers	The "three red lines"	Limitation on developers' loan capabilities
Financial institutions	Control on loan concentration Mortgage and development loan limits	Reduction in developers' ability to access capital
Local government	Centralized land supply Strict supervision of pre-sale funds	Cooling down the land market Reduction in developers' ability to utilize funds

Table A4.3 Overall status of the top 25 real estate developers under the "Three Red Lines" indicators (2020)

Risk level	Risk category	Number of enterprises	Probability distribution
High risk	Red	4	16%
Medium risk	Yellow	11	44%
Low risk	Green	10	40%
	Total	25	100%

Table A4.4 Managed area and number of projects by Country Garden Services

Item	Unit	2015	2016	2017	2018
Contract-based managed area	1,000,000 m2	162	207	329	505
Fee-based managed area	1,000,000 m2	70	91	123	182
Number of property projects	Project	194	284	440	840

Table A4.5 Operating revenue and growth rate of Country Garden Services

Year	2014	2015	2016	2017	2018
Operating revenue	0.96	1.47	1.96	3.12	4.68
Growth rate		52%	33%	59%	50%

Table A4.6 Comparison of industry cyclicality

Company	Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Country Garden	Real estate	70	167	147	165	246	332	400	600	819	1,095	1,482	2,202	3,694	4,750	4,493	5,075	4,173	3,913
	Growth rate		139%	-12%	12%	49%	35%	20%	50%	37%	34%	35%	49%	68%	29%	-5%	13%	-18%	-6%
Country Garden Services	Property service	2	2	3	4	4	5	6	8	10	15	20	27	47	96	156	288	414	426.11
	growth rate		29%	32%	21%	14%	25%	18%	31%	25%	52%	33%	36%	76%	106%	62%	85%	44%	3%

Table A4.7 Industry asset structure comparison

Item	Country Garden Services				Country Garden			
	2015	2016	2017	2018	2015	2016	2017	2018
Proportion of receivables in total assets	55.02%	25.00%	20.49%	14.27%	12%	20%	26%	26%
Proportion of inventory in total assets	0.39%	0.22%	0.18%	0.15%	47%	42%	37%	42%
Receivables turnover days	196	115	83	62	135	279	439	410
Inventory turnover days	1.40	1.01	0.72	0.66	551	594	632	655
Total asset turnover days	356	460	407	431	1,167	1,410	1,689	1,569
Total asset turnover rate	1.02	0.79	0.90	0.85	0.31	0.26	0.22	0.23

Table A4.8 Comparison of operating cash flow by industry (Unit: RMB 1,000,000)

Company	Sector	2015	2016	2017	2018	2019	2020	2021	2022	2023
Country Garden	Real estate	-17,589	41,262	24,084	29,381	14,666	-21,631	10,855	35,621	-76,133
Country Garden Services	Property services	-12	1,001	885	1,548	3,257	3,613	3,407	3,321	4,615

Table A4.9 Comparison of real estate development, construction robots and agriculture industry

Comparison	real estate development	construction robots	Agriculture
corporate culture	Execution ability, standardization, performance orientation	Innovation-driven, inclusive of trial and error, and technological breakthroughs	Driven by sentiment, long-termism, and promoting agriculture through science and technology
industry characteristics	Capital-intensive, relying on a large amount of capital, land and human resources	R&D-intensive, relying on core technology research, algorithms and professional talents	Layout of the whole industrial chain from breeding, scientific research to sales
cash flow features	Rapid project development, pursuing a quick cash flow return	Huge investment in R&D and equipment, long payback period	long cycle from technology, R&D investment, industrial chain construct to profitability

Table A4.10 Country Garden overseas investment (Unit: Million RMB)

Type	Country	Amount
Equity investment	Malaysia	1900
	Thailand	105
Bond issuance	Malaysia	1,300
	Thailand	390
Total		3,695

Table A4.11 Composition of the board of directors of Country Garden Services (2018)

Name	Position	Position in Country Garden
Li Changjiang	Executive director & GM	/
Xiao Hua	Executive director & Deputy GM	/
Guo Zhanjun	Executive director & Deputy GM	/
Yang Huiyan	Chairman & non-executive director	Executive director & vice chairman
Yang Zhicheng	Non-executive director	Executive director
Wu Bijun	Non-executive director	CFO
Mei Wenjue	Independent non-executive director	/
Rui Meng	Independent non-executive director	/
Chen Weiru	Independent non-executive director	/

Table A4.12 Real estate development cash flow model

Item	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sales proceeds from customers	800	50	50	50	50	1,000
Parent company investment	150	-150				0
External equity	150				-150	0
Bank loans for development	300				-300	0

Item	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Total cash inflow	1,400	-100	50	50	-400	1,000
Land payments	300					300
Construction costs	50	50	50	50	50	250
Personnel costs	10	10	10	10	10	50
Management expenses	10	10	10	10	10	50
Taxes	20	20	20	20	100	180
Financial costs	30	30	30	30		120
Total cash outflow	420	120	120	120	170	950
Net cash flow	980	-220	-70	-70	-570	
Discounted cash flow	255					
Net profit margin	5%					
Return on owner's equity	33%					

Table A4.13 Value-added services of property management companies

Company	Main services	Charging methods
Greentown Service	- Park services: park products, park space, home life, property asset management and cultural education - Consulting services: ongoing property services and management consulting services	- Park products: price difference fee - Park space: partial commission share - Home life: monthly fee model with customizable service packages - New retail: management fee - Property asset management: commission, sales price difference - Consulting services: service fee
Colour Life	- Engineering services: equipment installation, maintenance, and energy-saving services - Public space leasing, online promotion services, leasing information system software, sales and leasing assistance, and office subleasing	- Engineering services: service fee - Community leasing and sales: commission and referral fee - Online platform and information systems: reward, system and software rental
A-Living Smart City Services	- Co-marketing: property agency, advertising, and property inspections - Life services: home services, properties and shop brokerage, ready-to-move-in, smart home, community tourism agency, and other custom professional services - Asset management: parking space sales and residential property leasing	- Co-marketing: service fee based on actual cost or fixed lump sum - Property agency: commission calculated as a fixed percentage of the contract purchase price - Life services: service fee
Country Garden Services	- Consulting services, pre-delivery cleaning, landscaping, and maintenance services - Home life services, real estate brokerage, and public area value-added services	- Non-property owner value-added: reservation fee based on estimated expenses for each transaction - Home life: service fee, and referral fee - Real estate brokerage: commission based on a fixed percentage of the purchase price or monthly rent - Public area value-added: commission, and

Company	Main services	Charging methods
		sponsorship fee

Table A4.14 Performance breakdown of Country Garden Services' business segments (Unit: Million RMB)

Operating business	2015	Proportion	2016	Proportion	2017	Proportion	2018	Proportion
Property management services	1,434	85.71%	1,957	82.97%	2,545	81.51%	3,445	73.70%
Community value-added services	122	7.31%	194	8.24%	242	7.75%	417	8.92%
Non-property owner value-added services	110	6.55%	200	8.47%	328	10.51%	791	16.92%
Other services	7	0.42%	8	0.33%	7	0.24%	21	0.46%
Total	1,672		2,358		3,122		4,675	

Table A5.1 P/E Ratio trends of property management companies (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
0	45.83	35.19	4.17	24.05	35.38	52.03	146.60	26
1	26.42	16.47	2.43	14.57	21.20	36.30	61.71	26
2	13.19	28.28	-103.15	5.35	9.76	25.69	64.78	26
3	8.63	11.41	-12.97	1.36	6.53	15.25	37.54	25
4	6.05	12.18	-23.81	-1.31	5.50	11.85	37.48	22
5	7.82	7.05	-2.60	2.87	7.19	10.90	23.38	12
6	2.52	21.86	-27.23	-1.84	-0.70	8.91	33.43	5
Total observations								142

Table A5.2 P/E ratio trends of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	22.28	62.76	2.01	4.88	7.66	14.33	315.11	24
-2	8.53	4.44	2.01	6.02	7.46	9.36	20.11	25
-1	6.30	6.35	-18.53	4.16	6.73	8.88	20.19	25
0	7.13	4.40	-2.03	4.28	5.95	8.71	20.23	26
1	4.71	3.09	-0.85	2.98	4.56	6.48	12.78	26
2	5.66	10.63	-4.46	0.72	4.29	6.42	52.40	26
3	2.78	4.16	-6.13	-0.04	1.43	6.24	14.01	25
4	1.96	5.71	-14.21	-0.07	-0.03	5.26	17.01	21
5	5.26	7.52	-0.36	-0.15	-0.01	11.55	18.01	12
6	2.31	3.71	-0.23	-0.18	-0.06	3.81	8.20	5
Total observations								215

Table A5.3 Asset-liability ratio trends of property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N

-3	85.64	11.91	59.75	77.26	86.24	95.91	103.56	26
-2	83.61	10.92	56.10	80.47	84.27	92.13	98.50	26
-1	76.09	12.42	41.29	69.55	77.14	84.38	97.05	26
0	43.92	15.74	15.20	32.67	39.93	53.45	82.47	26
1	51.05	24.51	25.95	35.86	47.88	53.73	153.05	26
2	54.96	21.28	35.04	41.30	47.92	61.81	121.16	26
3	55.62	21.65	36.03	42.30	46.88	57.04	117.84	25
4	53.81	18.04	37.78	43.44	49.19	57.63	115.78	23
5	49.14	8.44	39.92	44.15	46.61	52.70	64.74	11
6	51.41	7.97	44.93	45.16	47.86	55.77	63.31	5
Total observations								220

Table A5.4 Asset-liability ratio trends of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	77.63	8.61	61.90	69.40	77.97	85.79	90.27	25
-2	77.89	6.92	62.55	72.44	77.86	83.03	89.80	26
-1	78.81	6.60	61.02	74.97	77.97	83.03	90.56	25
0	78.05	7.71	53.98	75.90	77.81	83.72	89.36	26
1	80.06	11.47	60.19	73.28	79.25	83.83	122.45	26
2	82.56	14.05	57.62	74.53	79.89	87.25	132.59	25
3	83.85	12.97	59.52	74.49	84.57	90.24	116.72	23
4	85.40	15.31	60.06	74.70	82.25	96.64	114.09	19
5	83.92	17.61	60.14	74.24	78.46	94.91	116.22	11
6	85.08	21.09	58.95	76.96	79.40	95.05	115.07	5
Total observations								211

Table A5.5 Comparison of interest-bearing debt ratio trends

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	0.000	27.73	57.89	63.10	61.84
-2	0.000	24.97	67.13	65.24	62.46
-1	0.000	0.16	69.81	64.96	63.03
0	0.000	0	73.07	64.09	68.71
1	0.000	0	70.88	67.83	70.69
2	20.74	0.16	65.09	70.53	70.55
3	12.54	0	61.53	73.34	69.08
4	5.68	0	57.13	77.11	75.65
5	4.16	2.26	90.59	66.97	81.31
6	2.32	2.32	102.92	82.55	90.93

Table A5.6 Interest-bearing debt ratio trends of property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	41.24	42.55	0.00	0.00	27.73	82.66	105.88	26
-2	38.99	39.74	0.00	0.00	24.97	79.87	96.15	26
-1	23.65	34.13	0.00	0.00	0.16	50.46	93.94	26
0	4.86	9.53	0.00	0.00	0.00	3.51	33.11	26
1	9.34	16.23	-8.41	0.00	0.00	16.82	61.75	26

2	-0.83	52.88	-249.29	0.00	0.16	14.07	47.84	26
3	5.10	13.12	-27.50	0.00	0.00	8.58	46.65	25
4	5.10	12.94	-16.61	0.00	0.00	6.77	53.86	22
5	5.96	10.88	0.00	0.00	2.26	6.56	37.24	11
6	8.77	15.81	0.00	0.00	2.32	4.68	36.84	5
Total observations								219

Table A5.7 Interest-bearing debt ratio trends of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	63.82	13.81	36.09	55.71	63.10	72.54	86.46	26
-2	66.12	13.14	38.53	58.60	65.24	77.74	87.12	26
-1	67.85	12.36	41.49	60.96	64.96	78.26	86.68	26
0	66.63	11.26	37.61	60.90	64.10	73.48	86.54	26
1	76.31	42.81	43.05	62.32	67.83	79.52	277.59	26
2	90.72	89.76	37.75	64.19	70.53	83.62	514.64	25
3	83.16	34.72	38.79	65.65	73.34	91.86	214.78	23
4	87.17	37.20	39.22	60.57	77.11	104.03	190.49	19
5	85.45	39.30	38.50	63.72	66.97	100.25	159.55	11
6	89.08	37.55	40.67	76.33	82.55	102.92	142.94	5
Total observations								213

Table A5.8 Board composition of Country Garden Services (2023)

Name	Appointment/Resignation date	Position	Position in Country Garden
Xu Binhuai	Appointed on Oct 10, 2023	Executive director & GM	/
Li Changjiang	Resigned on Oct 10, 2023	Executive director & GM	/
Xiao Hua		Executive director & Deputy GM	/
Guo Zhanjun	Resigned on Apr 3, 2024	Executive director & Deputy GM	/
Yang Huiyan		Chairman & non-executive director	Chairman of the Board
Mei Wenjue		Independent non-executive director	/
Rui Meng		Independent non-executive director	/
Chen Weiru		Independent non-executive director	/
Zhao Jun	Appointed on Apr 3, 2024	Independent non-executive director	/

Table A5.9 Operating cash flow of property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	15.78	14.70	-11.87	5.79	13.54	25.56	44.61	26
-2	19.60	12.77	0.31	10.79	16.64	27.49	45.02	26
-1	22.12	30.11	-5.02	10.19	16.90	24.52	160.23	26
0	16.55	23.97	-79.26	9.78	17.14	25.26	52.03	26
1	18.27	17.39	-30.79	7.54	15.89	30.95	56.95	26
2	10.01	12.00	-17.50	2.83	8.38	16.93	39.41	26
3	7.91	13.01	-10.61	2.25	8.59	11.81	56.64	25
4	8.36	8.98	-6.07	4.07	6.20	11.30	33.07	22
5	11.52	4.34	3.68	9.23	10.83	14.13	18.64	11
6	8.42	9.04	-0.90	3.09	8.15	8.80	22.96	5

Total observations	219

Table A5.10 Operating cash flow trends of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	-3.01	57.46	-207.84	-21.91	9.36	17.31	114.01	26
-2	1.18	27.56	-89.84	-9.52	3.22	16.15	41.73	26
-1	0.29	27.11	-69.73	-9.47	4.49	15.35	49.79	26
0	9.66	17.63	-39.55	2.35	10.72	19.72	38.45	26
1	2.07	18.54	-33.84	-10.93	3.17	12.68	38.14	26
2	3.30	22.09	-33.67	-4.67	2.27	8.12	83.47	25
3	-0.30	21.24	-61.48	-5.26	2.77	12.74	25.27	23
4	8.81	15.05	-24.65	0.32	6.06	18.05	47.36	19
5	4.53	12.01	-18.99	-1.40	5.22	10.71	24.61	11
6	5.28	7.53	-1.30	-1.08	3.15	9.32	16.32	5
Total observations								213

Table A5.11 Related-party receivables of Country Garden Services (Unit: RMB 1,000,000)

Item	2015	2016	2017	2018	2019	2020	2021	2022	2023
Trade receivables	232	37	16	67	115	179	882	1,731	2,997
Other receivables	291	234	233	0					
Total	523	271	249	67	115	179	882	1,731	2,997

Table A5.12 Comparison of trends in the number of employees (Before and after spin-off listing) (Unit: %)

Spin-off year	Country Garden Services	Property management industry	Country Garden	Real estate development industry	Non-spin-off companies
-3	/	/	68,150	8,719	2,943
-2	/	/	94,450	10,100	3,478
-1	23,961	10,477	124,837	12,513	4,424
0	33,609	8,590	131,387	16,412	5,927
1	54,085	11,379	101,784	15,639	8,527
2	153,585	12,985	93,899	17,679	9,849
3	223,667	12,871	100,705	13,942	9,978
4	227,759	14,869	69,932	14,234	8,725
5	213,712	14,656	43,146	12,410	6,898
6	214,346	52,220	22,794	22,794	6,195

Table A5.13 The employees trends of property management companies before and after spin-off listing

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-1	17,257	25,917	2,474	5,486	10,477	16,039	106,945	15
0	18,016	20,717	1,265	5,084	8,590	26,391	97,930	26
1	23,112	24,347	3,891	6,832	11,379	35,802	101,284	26
2	29,183	35,320	3,346	7,351	12,985	43,371	153,585	26
3	31,608	46,943	3,029	9,081	12,871	40,977	223,667	25
4	34,802	50,361	2,168	9,256	14,869	39,841	227,759	22
5	41,018	60,431	1,895	9,844	14,656	42,498	213,712	12

6	75,982	83,224	12,013	14,459	52,220	86,873	214,346	5
Total observations								157

Table A5.14 Operating revenue of top 10 property management companies (2018-2024) (Unit: RMB mn)

No.	Listing date	Company name	2018	2019	2020	2021	2022	2023	2024
1	2015/10/23	China Overseas Property	4,178	5,466	6,544	9,442	10,900	13,051	14,024
2	2016/07/12	Greentown Service	6,709	8,582	10,106	12,566	14,856	16,812	17,893
3	2018/02/09	A-Living Smart City Services	3,376	5,127	10,026	14,080	15,378	15,443	13,867
4	2018/06/19	Country Garden Services	4,675	9,645	15,600	28,843	41,367	42,611	43,993
5	2019/12/16	China Merchants Property Operation & Service	6,655	6,078	8,651	10,590	13,024	15,627	17,172
6	2019/12/19	Poly Property	4,229	5,967	8,037	10,782	13,687	15,062	16,342
7	2020/10/30	Shimao Services	1,329	2,489	5,026	8,343	8,637	8,203	7,896
8	2020/12/02	Evergrande Property	5,903	7,332	10,781	13,193	11,809	12,487	12,757
9	2020/12/09	China Resources Mixc Lifestyle	4,431	5,868	6,778	8,875	12,016	14,766	17,043
10	2022/09/29	Onewo	9,795	13,927	18,145	23,704	30,106	33,183	36,224

Table A5.15 Comparison of fee-based managed area growth of leading property management companies (2018–2024)

Company name	2018 (Million m^2)	2024 (Million m^2)	Growth rate	Main expansion method
Country Garden Services	182	1,127	519%	Acquisitions + related-party transfers
Onewo	356	901	153%	Third-party bidding + asset-light output
Poly Property	190	719	278%	Related-party + government cooperation
China Resources Mixc Lifestyle	105	370	252%	Commercial operations + high-end residential projects

Table A5.16 Performance sources of Country Garden Services' basic property management services (After spin-off listing) (Unit: Thousand m^2)

Performance source	2018	Proportion	2019	Proportion	2020	Proportion	2021	Proportion	2022	Proportion	2023	Proportion	2024	Proportion
Property management services from independent	36,033	20%	72,176	26%	103,304	27%	419,383	55%	450,095	52%	480,757	50%	530,859	51%

Performance source	2018	Proportion	2019	Proportion	2020	Proportion	2021	Proportion	2022	Proportion	2023	Proportion	2024	Proportion
third-parties														
Country Garden Group	145,475	80%	203,924	74%	274,006	73%	346,360	45%	419,030	48%	476,168	50%	506,013	49%
Total	181,508		276,100		377,310		765,743		869,125		956,925		1,036,872	

Table A5.17 Performance breakdown of Country Garden Services by business segment (After spin-off listing) (Unit: Million RMB)

Operating business	2018	Proportion	2019	Proportion	2020	Proportion	2021	Proportion	2022	Proportion	2023	Proportion	2024	Proportion
Property management services	3,445	73.70%	5,817	60.31%	8,607	55.17%	13,794	47.82%	22,856	55.25%	24,699	57.96%	25,910	58.90%
Community value-added services	417	8.92%	865	8.97%	1,731	11.10%	3,328	11.54%	4,017	9.71%	3,753	8.81%	4,194	9.53%
Non-property owner value-added services	791	16.92%	1,422	14.74%	1,370	8.78%	2,675	9.27%	2,665	6.44%	1,553	3.65%	704	1.60%
Other services	21	0.46%	25	0.26%	309	1.98%	134	0.46%	154	0.37%	190	0.45%	233	0.53%
Three-Supplies and Property			1,515	15.71%	2,699	17.30%	3,729	12.93%	5,553	13.42%	6,520	15.30%	8,156	18.54%
Urban Services					884	5.67%	4,529	15.70%	4,837	11.69%	4,884	11.46%	4,168	9.47%
Commercial Operation Services							654	2.27%	1,285	3.11%	1,012	2.38%	627	1.43%
Total	4,675		9,645		15,600		28,843		41,367		42,612		43,992	

Table A5.18 Operating revenue growth of property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-2	37.37	16.45	-6.88	29.54	35.44	42.21	67.19	26
-1	37.55	17.44	12.94	25.73	33.19	44.97	87.60	26
0	42.06	23.88	-8.68	29.57	39.48	52.91	101.86	26
1	45.05	32.89	-25.03	24.24	39.78	60.95	114.79	26
2	24.60	27.65	-16.14	3.90	26.07	39.30	95.51	26
3	15.86	25.00	-16.15	-4.16	6.26	26.84	84.77	25
4	10.39	30.48	-33.07	-4.90	0.61	15.20	121.70	22
5	5.33	11.28	-13.29	-0.29	2.91	9.17	27.94	11
6	5.48	22.16	-10.24	-6.44	-3.28	3.22	44.12	5
Total observations								193

Table A5.19 Operating revenue growth of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-2	31.38	39.34	-33.79	12.07	24.23	44.49	158.27	26
-1	37.92	44.49	0.47	15.81	24.44	47.87	228.95	26
0	25.23	33.80	-34.76	10.72	19.11	28.65	146.66	26
1	9.71	25.60	-50.46	-6.27	12.76	26.02	73.65	26
2	0.23	37.32	-51.14	-28.26	-2.25	19.85	87.22	25
3	-2.48	33.28	-80.91	-16.09	0.76	15.53	58.80	23
4	-5.25	34.71	-56.61	-27.78	-13.82	12.35	69.55	19
5	-6.49	27.11	-64.86	-14.44	-0.62	7.74	36.19	11
6	-9.79	35.63	-55.81	-36.97	0.08	14.09	29.64	5
Total observations								187

Table A5.20 Goodwill impairment provisions for acquisition projects (Unit: RMB 1,000,000)

Company name	Initial value	Value at end of 2023	2022 impairment	2023 impairment	Total impairment
Justbon Services	4,895	2,974	1,182	615	1,797
Caixin Services	1,815	0	445	1,371	1,815
Wuhan Xueyu	109	0	109		109
Beautiful City E.S.	406	0		406	406
City Media	314	0		314	314
Total			1,736	2,706	4,441

Table A5.21 EBIT margin growth of property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	12.39	5.03	3.25	10.06	12.09	13.80	26.77	26
-2	13.67	5.99	5.39	9.77	12.43	15.36	30.78	26
-1	16.29	5.75	6.12	12.26	17.13	20.15	30.19	26
0	18.96	10.17	5.95	11.43	17.41	22.68	54.31	26
1	17.38	8.07	-2.87	11.93	18.12	22.22	31.18	26
2	3.96	22.37	-68.43	-5.00	10.07	18.10	27.89	26
3	6.87	17.03	-46.18	1.89	9.15	18.23	31.41	25

4	6.61	12.85	-17.19	-1.27	8.46	13.00	29.40	22
5	6.72	14.66	-32.43	4.32	8.54	13.50	23.14	11
6	4.25	18.46	-25.06	2.37	6.04	13.26	24.63	5
Total observations								219

Table A5.22 EBIT margin of real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-3	26.31	10.04	10.05	18.03	26.55	31.89	46.92	26
-2	27.67	13.20	13.10	19.95	25.58	31.88	76.19	26
-1	25.63	9.96	9.28	19.77	23.54	31.59	55.01	26
0	22.07	11.88	-9.35	15.09	22.03	32.70	40.16	26
1	2.34	57.37	-259.82	7.92	16.67	24.20	39.70	26
2	-1.77	32.82	-81.78	-23.46	9.46	21.54	38.21	25
3	-7.29	34.43	-92.87	-27.89	5.27	13.59	42.01	23
4	-14.40	34.74	-97.24	-35.58	-10.89	7.68	39.03	19
5	-11.38	47.94	-114.54	-33.82	5.28	19.07	47.38	11
6	-42.60	110.02	-234.75	-27.37	-7.00	25.46	30.65	5
Total observations								213

Table A5.23 Operational asset structure of country Garden Services before and after spin-off listing (Unit: RMB)

Item	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating revenue	1,672	2,358	3,122	4,675	9,645	15,600	28,843	41,367	42,612	43,993
Cash			2,634	3,869	6,914	15,215	11,619	11,216	12,637	17,152
Financial assets			0	0	1,281	2,566	7,820	5,015	5,126	1,137
Receivables	789	617	712	788	2,004	5,244	15,578	22,146	21,606	22,680
Inventory	6	5	6	8	14	137	211	271	516	613
Intangible assets			21	686	1,603	6,176	27,945	25,953	23,927	22,162
Total assets	1,434	2,468	3,477	5,522	12,269	31,204	66,813	70,077	69,244	71,255

Table A5.24 Comparison of TAT trends in property management industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-2	0.78	0.36	0.28	0.51	0.70	1.02	1.76	26
-1	0.85	0.37	0.31	0.56	0.78	1.08	1.81	26
0	0.76	0.26	0.37	0.55	0.74	0.91	1.29	26
1	0.75	0.23	0.38	0.58	0.71	0.92	1.15	26
2	0.79	0.30	0.40	0.53	0.79	0.93	1.72	26
3	0.83	0.34	0.38	0.58	0.75	1.01	1.63	25
4	0.83	0.32	0.49	0.61	0.71	0.89	1.50	22
5	0.78	0.26	0.40	0.60	0.86	0.91	1.25	11
6	0.77	0.36	0.37	0.63	0.63	0.95	1.30	5
Total observations								193

Table A5.25 Comparison of TAT trends in the real estate industry (Before and after spin-off listing)

Spin-off year	Mean	SD	Min	p25	p50	p75	Max	N
-2	0.24	0.07	0.05	0.20	0.23	0.29	0.38	26
-1	0.24	0.06	0.13	0.21	0.23	0.27	0.37	25
0	0.24	0.05	0.14	0.20	0.23	0.28	0.37	26
1	0.22	0.09	0.11	0.18	0.21	0.24	0.59	26
2	0.20	0.08	0.06	0.17	0.20	0.24	0.46	25
3	0.18	0.06	0.08	0.14	0.20	0.22	0.33	23
4	0.18	0.07	0.07	0.12	0.17	0.24	0.34	19
5	0.18	0.07	0.05	0.13	0.19	0.23	0.26	11
6	0.19	0.09	0.05	0.20	0.22	0.22	0.29	5
Total observations								186

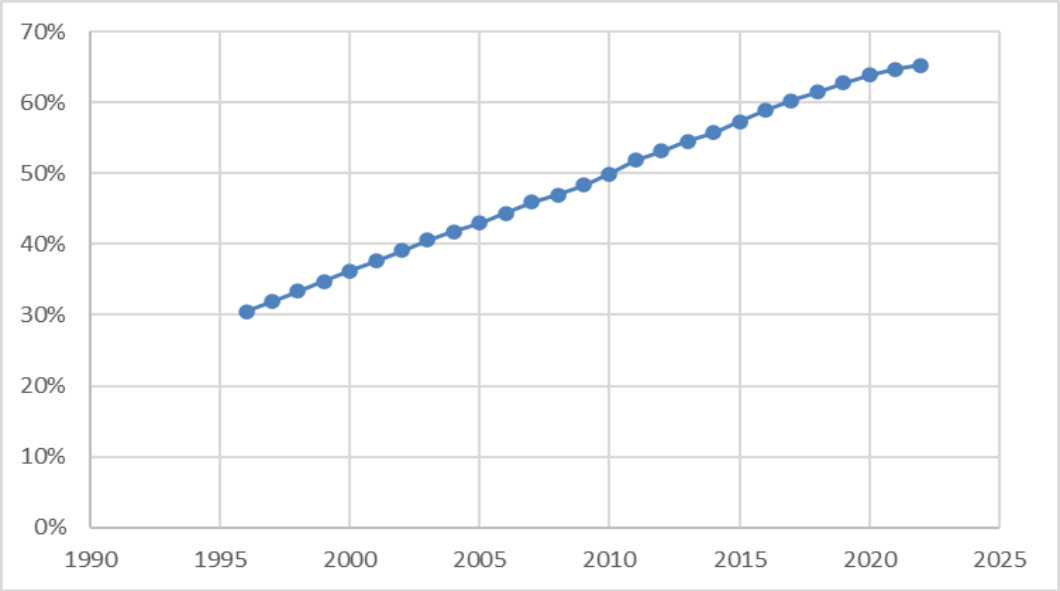


Figure A1.1 Urbanization rate in China (1995-2024)

Source: National Bureau of Statistic of China (2025)

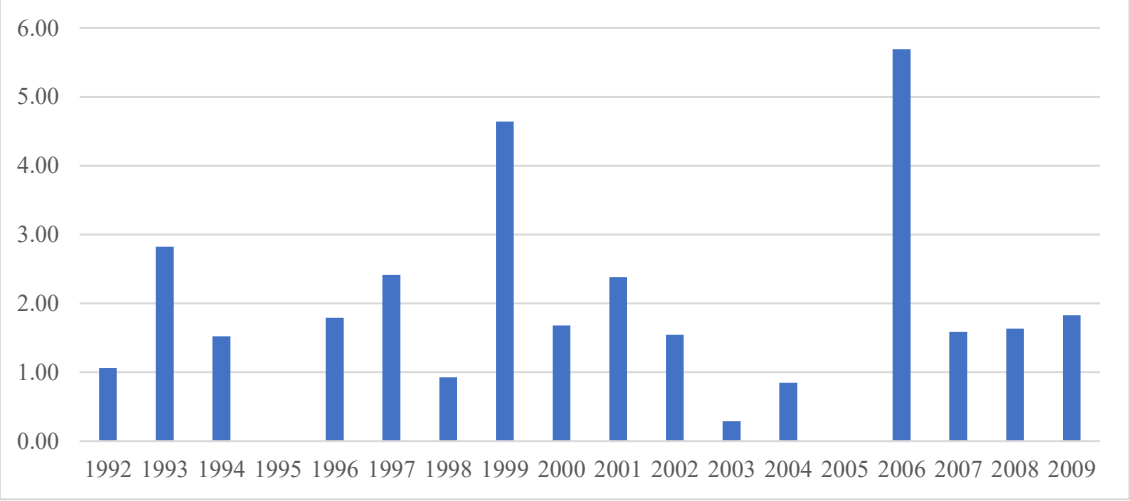


Figure A1.2 China real estate companies' IPO fundraising on the A-share market (Billion RMB)

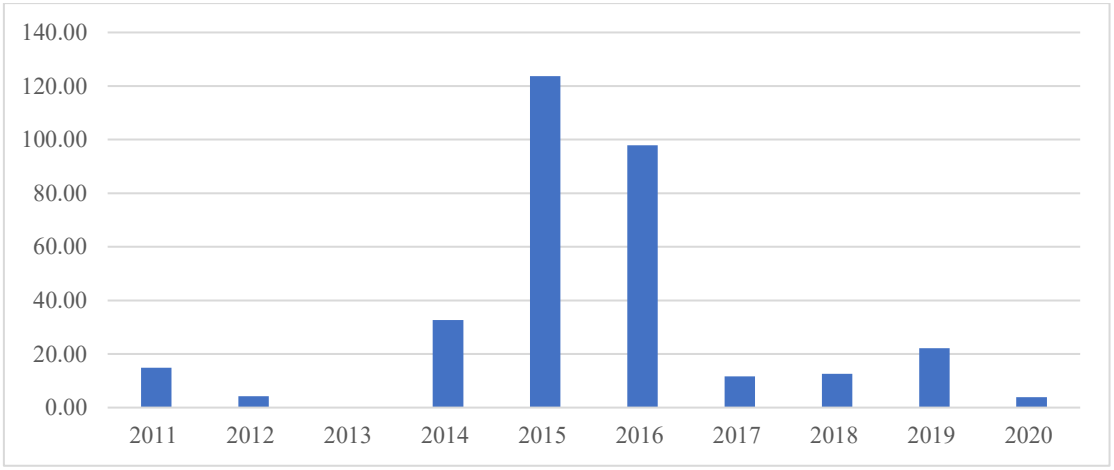


Figure A1.3 China real estate companies' SEO fundraising on the A-share market (Billion RMB)

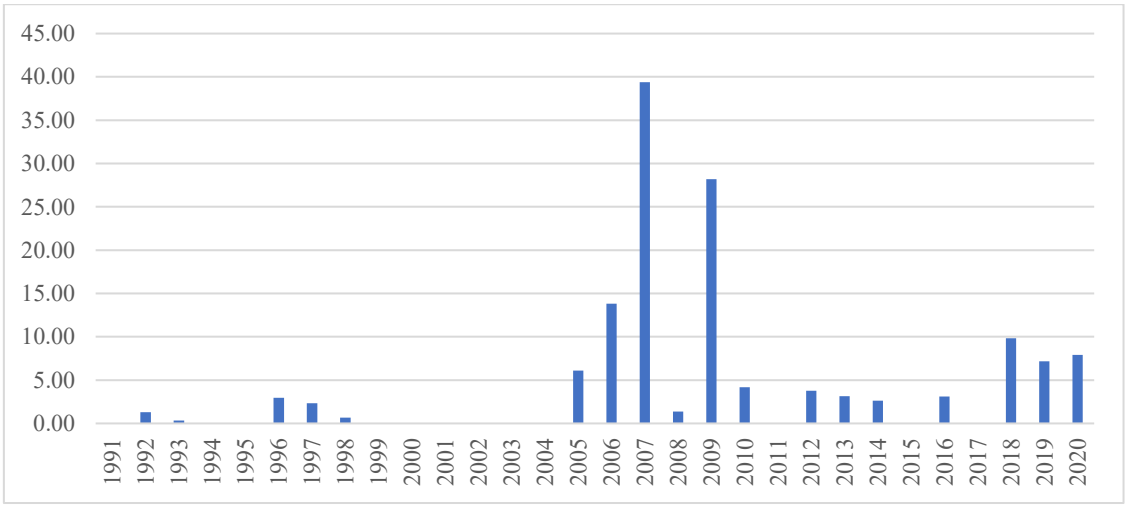


Figure A1.4 China real estate companies' IPO fundraising on the Hong Kong Stock (Billion RMB)

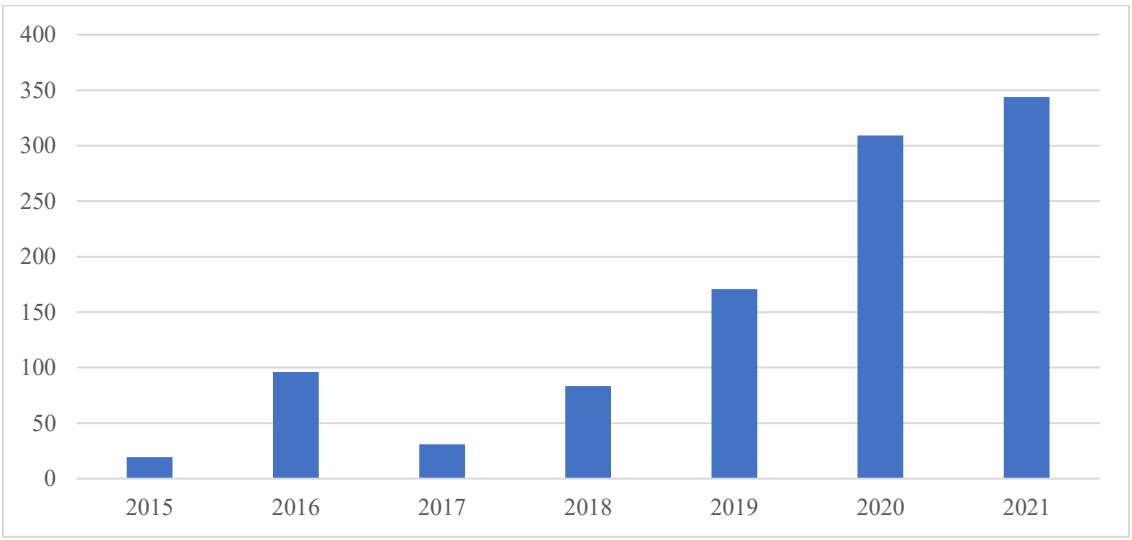


Figure A1.5 China real estate companies' bond fundraising (Billion RMB)

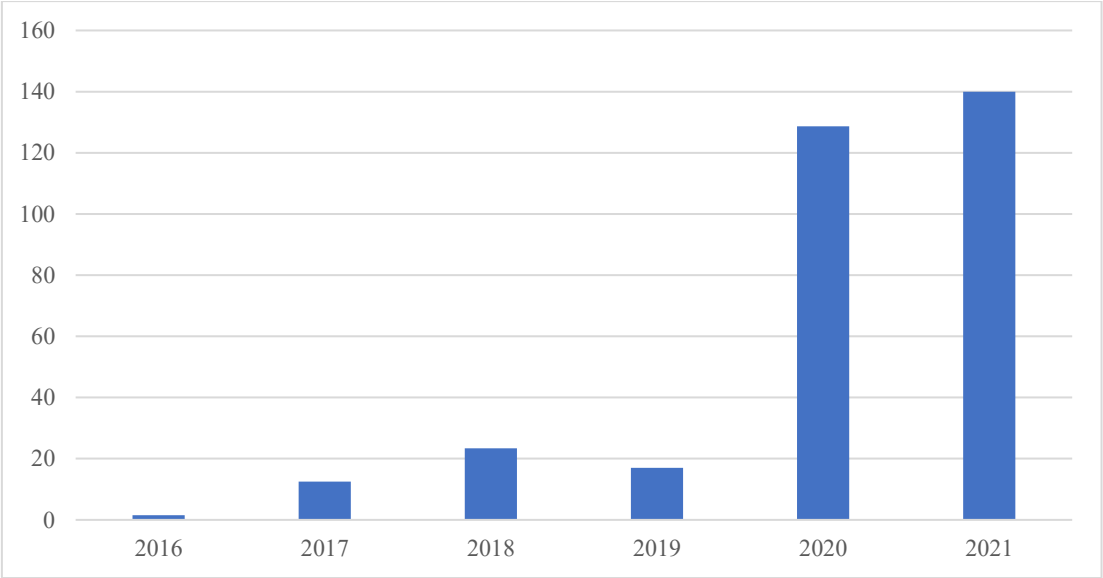


Figure A1.6 China real estate companies' medium-term notes fundraising (Billion RMB)

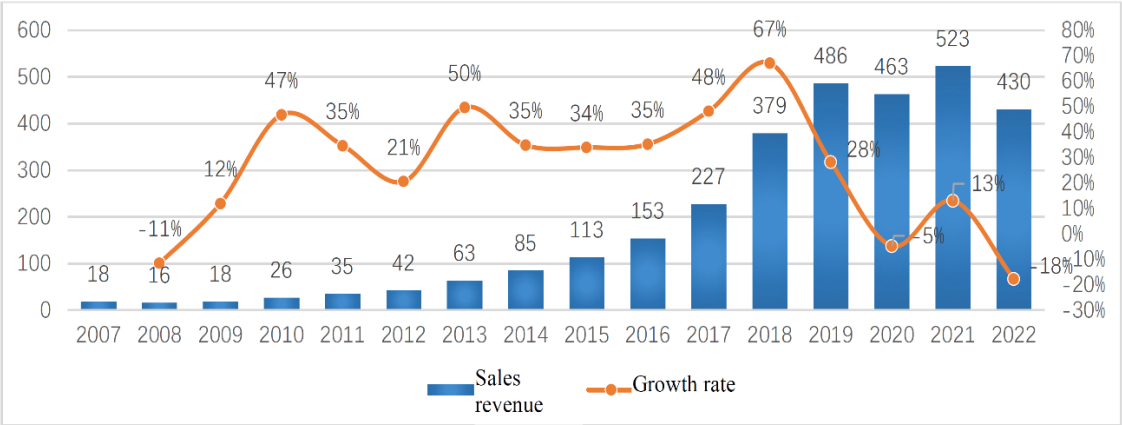


Figure A4.1 Country Garden operating revenue and growth rate (Billion RMB)

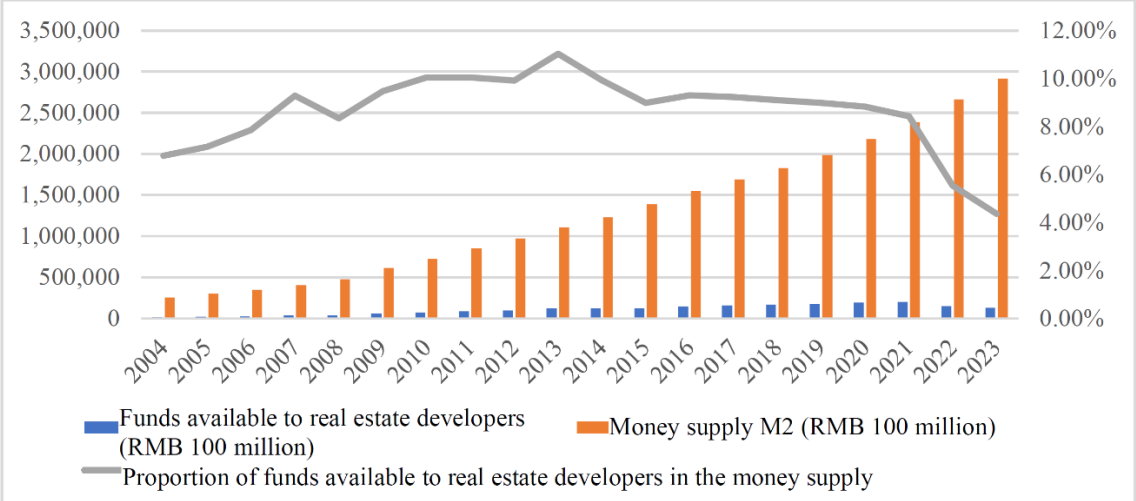


Figure A4.2 Proportion of funds available to real estate developers in money supply

Source: National Bureau of Statistic of China (2025)

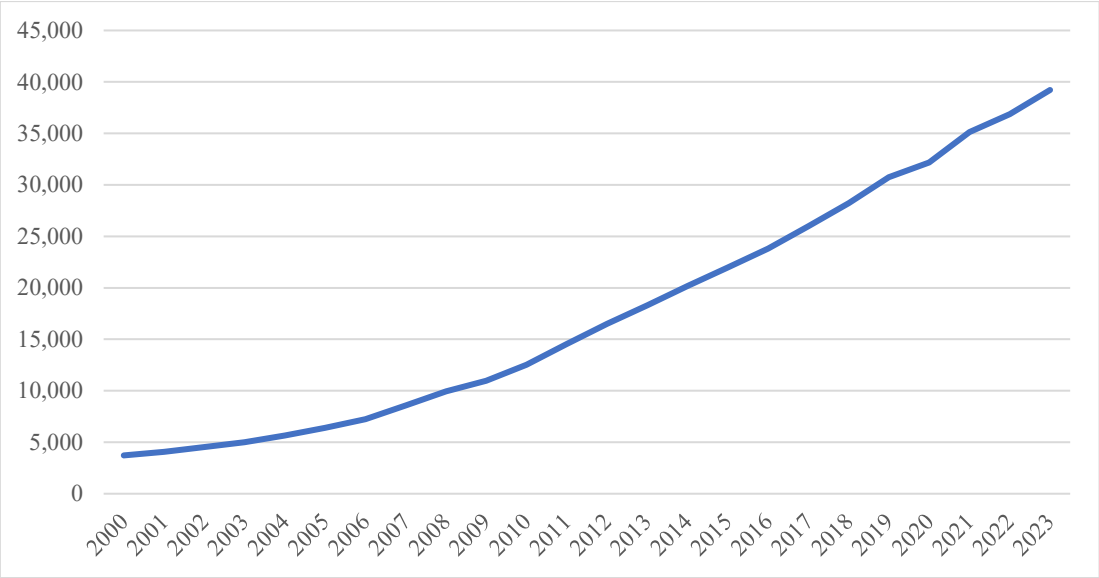


Figure A4.3 Per capita disposable income (Unit: RMB)

Source: National Bureau of Statistic of China (2025)

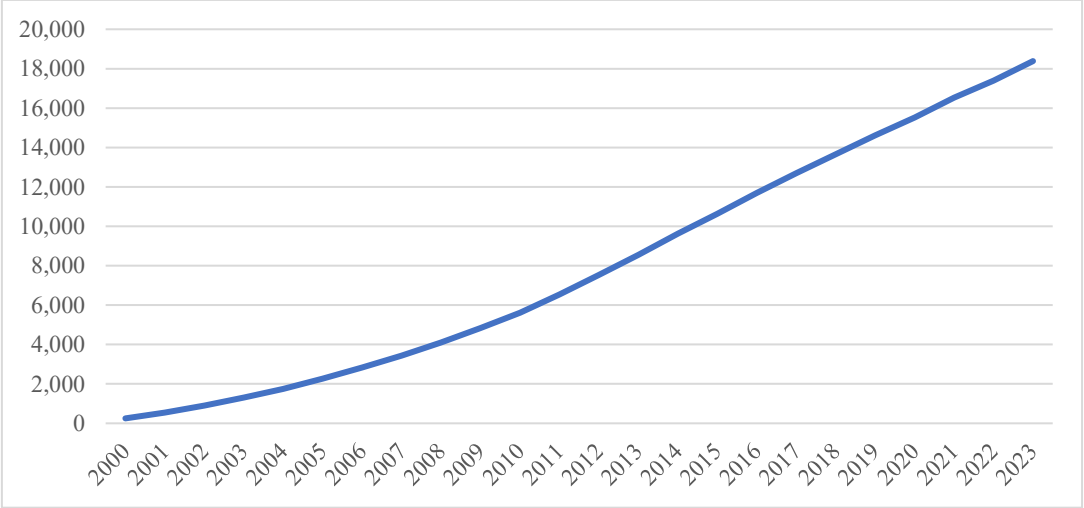


Figure A4.4 Cumulative completed floor area (Unit: Million m^2)

Source: National Bureau of Statistic of China (2025)

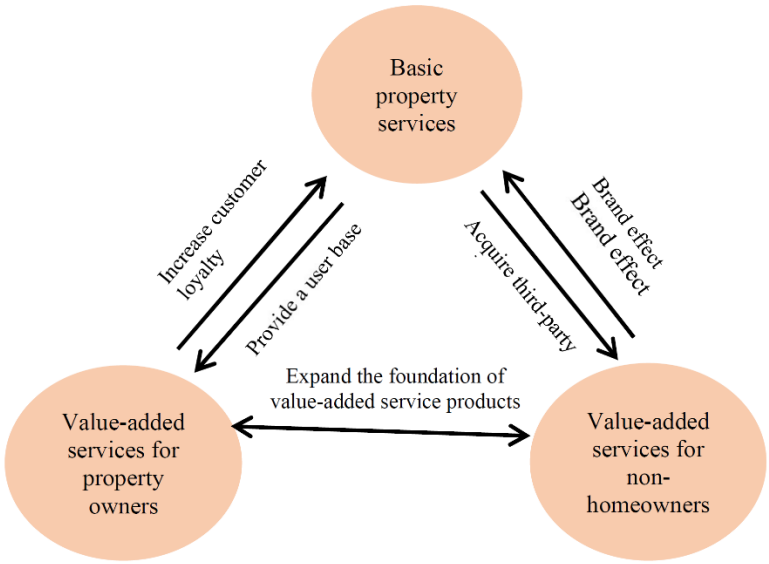


Figure A4.5 Business model of property management services

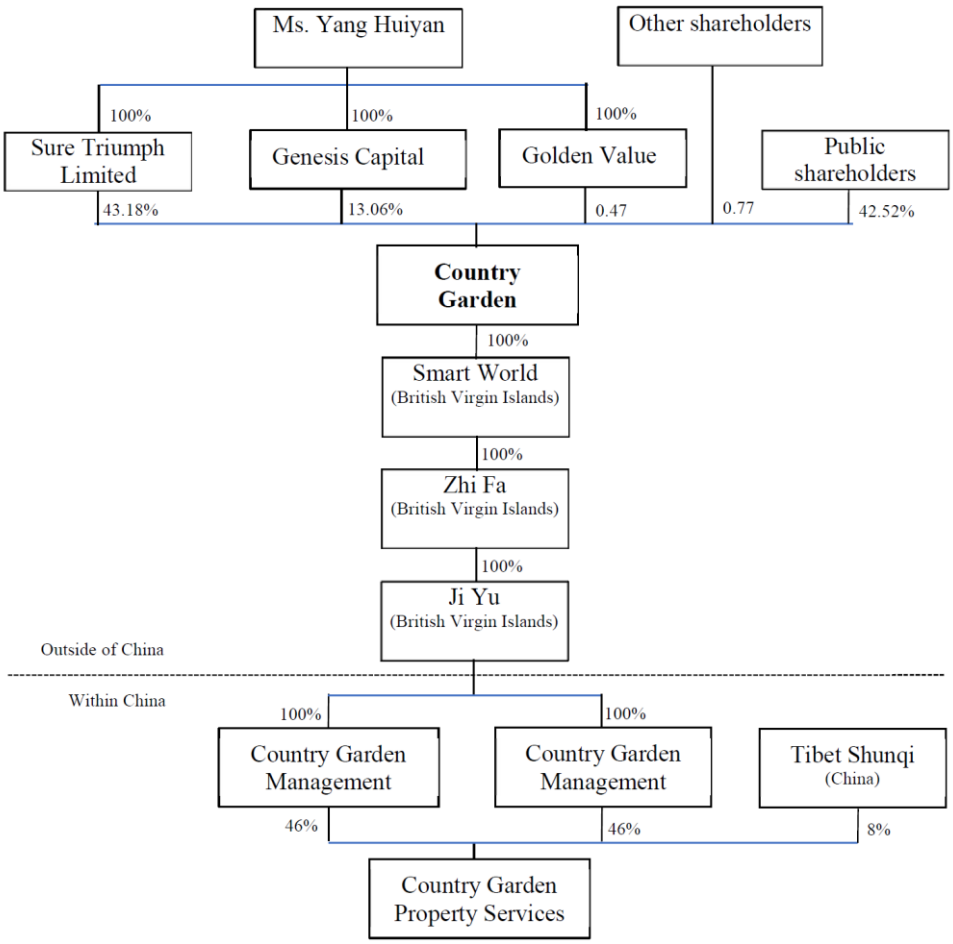


Figure A5.1 Shareholding structure before the spin-off

Source: Country Garden (2018)

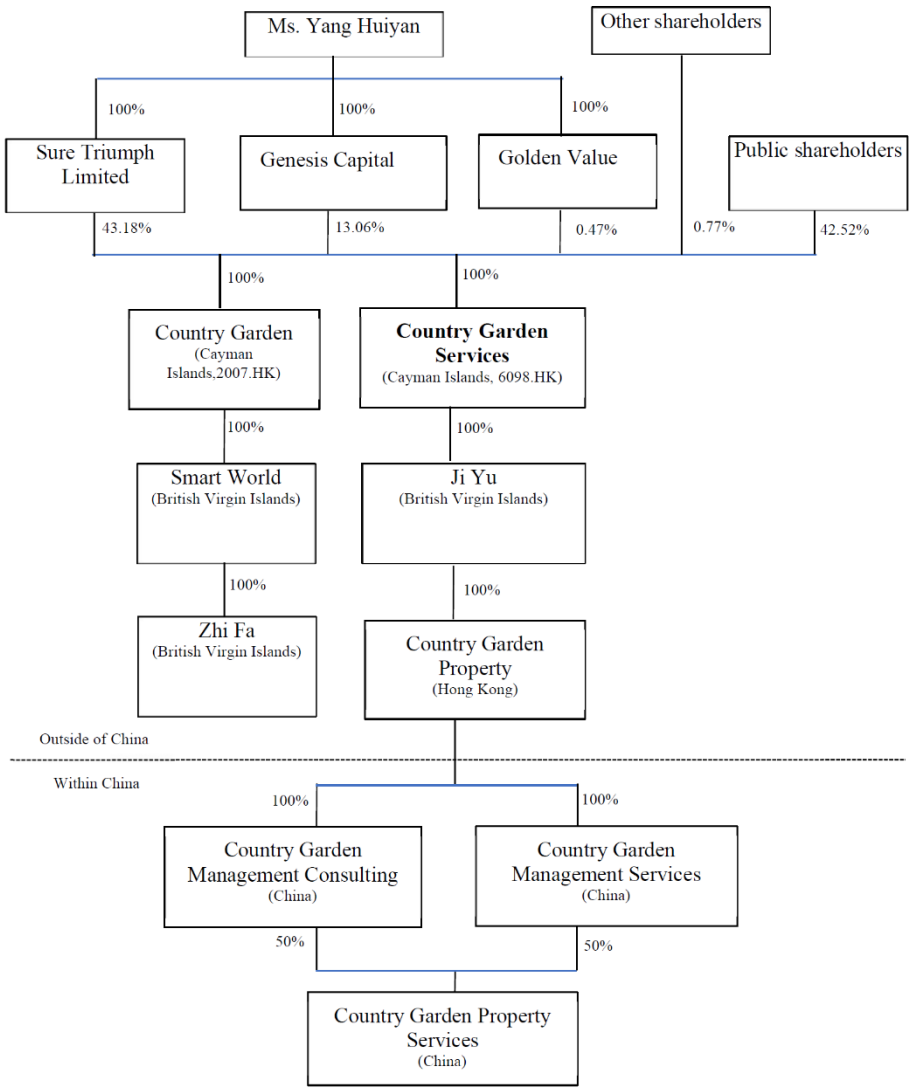


Figure A5.2 Shareholding structure after the spin-off

Source: Country Garden (2018)

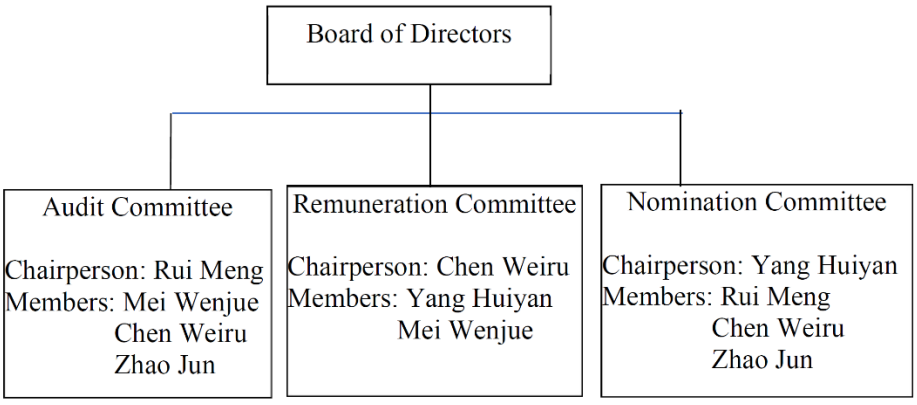


Figure A5.3 Board structure of Country Garden Services after spin-off listing

Source: Country Garden (2018)