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9B19N008

succession, transition, or exit: greentown’s founder’s Decision[[1]](#endnote-1)

Stephen Sapp wrote this case with the assistance of Willow Yang solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In May 2014, Song Weiping, founder of the Hangzhou-based luxury residential property developer Greentown China Holdings Limited (Greentown), his real estate empire, had recently blasted government policy-makers at a press conference:

The austerity measures have largely disrupted the property market and have made it increasingly difficult for most developers to do business. . . . To me, it’s not a real property market at all. . . . I think many of the officials are stupid. . . . The unreasonable policy directions and decisions really made me angry and disappointed.[[2]](#endnote-2)

Greentown had been missing its sales targets for the past few months, and China’s home market was getting more and more sluggish. Song said he had “lost his faith in the realty sector” and was looking at moving on.[[3]](#endnote-3)

Succession was a concern. Song, who had no children, had built the 10th-largest property company in China over the past two decades,[[4]](#endnote-4) and his partner in the company, chief executive officer (CEO) Shou Bainian, had tendered a sell-and-retire request, citing his deteriorating health. In his early 60s, Shou was Song’s college friend and closest associate. Shou acted in concert[[5]](#endnote-5) with Song’s family in making decisions regarding the company. Together, they owned 42.9 per cent of Greentown (see Exhibit 1 for details), so they were the largest and therefore controlling shareholders.[[6]](#endnote-6) As Song and Shou had long worked as a team, it could be difficult for Song to run the company on his own, especially in such difficult times.

There were several alternatives facing Song. For example, he could resign his position as chair, giving up his board responsibilities but remaining as a financial investor who was not actively involved in running the company. However, this would require finding a suitable successor as CEO. The successor would have to be someone who would follow Song’s vision and could lead Greentown to prosperity again. Song could also sell some or all of his 25 per cent holding in Greentown, either to a carefully selected buyer or to the stock market. This would provide Song with the capital and time to devote his retirement to pursuing his other interests. Unfortunately, it would also mean giving up control of his firm. The timing was important, as Greentown’s share price had dropped more than 22 per cent in the past year, most recently closing at HK$9.26.[[7]](#endnote-7)

Song could also maintain his controlling ownership position but leave managing the company to someone else. If he sold his interest in the company, should he sell it to a strategic buyer, a financial buyer, or the stock market? What criteria should he use to determine the best buyer or buyers? How much should he sell? What price was fair, given current market conditions and Song’s consequent loss of control? Answering these questions would require pulling some important information together.

**CHINA’S RESIDENTIAL REAL ESTATE MARKET**

The modern real estate industry in China had a relatively short history compared to real estate markets in other major economies; it had its start in 1987, thanks to the government’s “reform and opening-up” policy. Prior to this, housing was built and provided to the public by the communist government through work units, or *danwei*. To facilitate the development of a formal real estate industry in the 1990s, the trade of land-use rights and apartments was allowed, and the housing-allocation policy was finally abolished in 1998.[[8]](#endnote-8)

Since that time, the private housing industry[[9]](#endnote-9) had experienced rapid growth due to an increasing demand for better housing solutions in China. As personal incomes rose, people wanted larger homes. China’s per capita living space in 2012 was 37.1 square metres (m2) in rural areas and 32.9 m2 in urban areas—more than 30 per cent larger than a decade earlier.[[10]](#endnote-10) Beijing was determined to continue the pace of urbanization over the next two decades, so the demand for urban housing was expected to stay strong in the short to medium term.[[11]](#endnote-11)

As the demand for different types of housing grew, developers stepped in to offer what people were looking for. In China, there are different types of housing, and the definitions varied from city to city; each type required a different down payment and different taxes. Developers often segmented the properties into four categories: rigid demand properties, improved accommodation properties, high-end and luxury properties, and investment properties.

Rigid demand properties met basic housing needs. Representing the low to middle part of the market, these properties were often far removed from urban centres and smaller in size (around 90 m2 per unit). The main buyers of this type of housing were in their late 20s and newly married or planning to get married. In Chinese culture, it was considered shameful for married couples to live in rented homes. Improved accommodation properties targeted middle-class families who were seeking to upgrade from their initial homes. Properties of this type were usually located on the outskirts of central business districts and had better landscaping and facilities. The size of these units was usually about 120 to 140 m2 per unit. High-end and luxury properties were a niche segment that accounted for only 8 per cent of the total market. These properties were even larger in size and in better areas.[[12]](#endnote-12)

Beyond its use for housing, real estate was a popular place for the Chinese to store wealth. Due to constraints on foreign investments and limited opportunities for participation in domestic equity markets, real estate had become the most popular way for Chinese people to invest their savings. In a country with a savings rate of almost 50 per cent, there was significant capital to invest in this sector, so real estate had experienced robust gains. The home ownership rate in China stood at 90 per cent in 2013—one of the highest in the world.[[13]](#endnote-13) For more than a decade, property investment and development had been an important driver of the world’s second-largest economy, comprising 12.9 per cent of fixed asset investment and 16 per cent of gross domestic product (GDP) in 2013.[[14]](#endnote-14) The sector acted as the backbone to several upstream and downstream industries: loans to the real estate sector accounted for over 20 per cent of all bank lending, and land sales were a major source of revenue for local governments.[[15]](#endnote-15)

There were over 91,000 real estate companies in China, with total assets worth over 72 per cent of GDP.[[16]](#endnote-16) The top 10 developers had 13.3 per cent of the market in 2013, and the top 50 had 25.4 per cent.[[17]](#endnote-17) Most of the developers, however, focused on their local market, as the business model in China required a close relationship with the suppliers of land—the local governments. Most real estate companies operated with high leverage—higher, in fact, than companies in any other sector. Due to restrictions on bank loans, developers tended to rely on self-raised funds, which included funds from the unregulated shadow banking sector. Despite this high leverage, a report by the Reserve Bank of Australia showed that Chinese property developers appeared less affected by the global financial crisis and were more profitable than other sectors.[[18]](#endnote-18)

The recent slowdown in the real estate market could be traced to changes in government policies following the global financial crisis. Because of this crisis, in 2008, the government enacted policies such as lowering the minimum down payment requirements, lowering interest rates for home mortgages, and decreasing some taxes related to property transaction to spur growth in the real estate sector. This resulted in a strong recovery after the declines associated with the crisis. As things improved, there was a double-digit surge in home prices in 2013.[[19]](#endnote-19) The government responded with stricter down payment and mortgage requirements to slow the market, discourage speculation, and improve housing affordability. These changes led the real estate sector in China to experience a nationwide slowdown in residential price growth and a decrease in transactions in 2014. Property sales in the first four months of 2014 dropped almost 10 per cent year over year,[[20]](#endnote-20) and GDP growth slowed to 7.4 per cent, the weakest since 2002.[[21]](#endnote-21) Small and medium-sized developers with major exposure to lower-tier cities were the first to suffer. While the property markets in the Tier 1 cities of Beijing, Shanghai, Guangzhou, and Shenzhen and some Tier 2 cities were relatively healthier, it was difficult for Tier 3 and 4 cities to absorb the vast inventory of unsold homes that resulted from the oversupply of land by local governments.[[22]](#endnote-22)

Because of the important role played by the real estate market in all facets of the Chinese economy, governments did not allow the downturn to last long. The central and local governments in China were able to use various tools to adjust the property market, which they did, to positive effects (see Exhibit 2).

**SONG WEIPING AND GREENTOWN**

Song Weiping was born in 1958 in Zhejiang, the eastern Chinese province neighbouring Shanghai.[[23]](#endnote-23) When he was young, his parents moved to the Zhoushan Islands, where they endured the hardships of several natural disasters in the early 1960s and struggled to find enough food to eat. These hardships helped shape Song from an early age.[[24]](#endnote-24) He studied history at Hangzhou University (now part of Zhejiang University), where he met his business partner Shou Bainian. Shou had been an executive director of the company and acting in concert with Song’s family since 1998. Shou held a 17.81 per cent stake in the company.[[25]](#endnote-25)

After obtaining a bachelor’s degree, Song worked as a history and sports teacher at the Central Party School of the Communist Party of China in Zhoushan, where he also met his wife Xia Yibo. Xia personally owned 3.19 per cent of Greentown and was formally acting in concert with Song and Shou (see Exhibit 2). The couple had no children, and there were no other family members involved in Greentown’s business.

Song was forced to leave his stable teaching job in 1987 after founding a radical school newspaper in which he wrote commentaries on the government’s economic policies. In 1994, he founded a real estate company with some friends. Song left that first property start-up after a year and established his own company, Zhejiang Greentown Real Estate Company, the predecessor of Greentown.[[26]](#endnote-26)

Song was known for the superior quality of his projects, and Greentown strove to adhere to its principles of “Sincere, Goodwill, Exquisite and Perfection.”[[27]](#endnote-27) This led to higher costs and lower margins than those of the company’s peers.[[28]](#endnote-28) Song referred to Greentown’s developments as “artistic works,” and Greentown was responsible for providing quality developments to the community. This took time but resulted in Greentown being ranked for nine consecutive years as one of the “Top 10 Property Enterprises in China” and ranking first in the “General Satisfaction of Urban Residents” in most of its key markets.[[29]](#endnote-29) This meant that Greentown’s average days of inventory in 2007–2013 was more than 2,200 days[[30]](#endnote-30)—that is, Greentown usually took six years between acquiring land and delivering completed projects. This compared to under 1,100 days of inventory for China’s other large, high-end property developers.[[31]](#endnote-31) To ensure that its customers were happy, Greentown had set up a subsidiary, Greentown Service Group, to take care of its customers.[[32]](#endnote-32) This included the development of the Happy Greentown app that allowed clients to stay in touch with the management company.[[33]](#endnote-33)

To the general public, Song was often perceived as a maverick. In 1998, he founded the Zhejiang Greentown Football Club. Three years later, he earned national notoriety when he publicly confessed to bribing several soccer referees.[[34]](#endnote-34) He urged the government to crack down on corruption in China’s notorious soccer industry. This unusual move turned out to be a great public relations success: Song was not punished for bribery but was celebrated nationwide as a corruption fighter.

Riding on Song’s fame, Greentown was finally able to expand outside its home base. Greentown grew into one of the leading large-scale luxury home builders in China. It developed luxury residential properties including villas, multi-storey and high-rise apartment buildings, and large community and urban complex projects such as integrated residences, hotels, shopping malls, office buildings, schools, and public buildings. Based in Zhejiang province, one of the most economically prosperous regions in China, the company expanded into Shanghai, Beijing, and major cities in provinces such as Jiangsu, Anhui, Henan, Hunan, and Xinjiang. As of 2013, the company had 104 projects with a total gross floor area of 38.89 million m2, and the average selling price was ¥20,264[[35]](#endnote-35) per m2; this compared to an average selling price in 100 major Chinese cities of ¥10,833 per m2.[[36]](#endnote-36) Greentown was consistently ranked among the top 10 real estate companies in China in terms of size and city coverage.

From this position, the future outlook for the industry would play a key part in any decision. The market was forecasting sales declines throughout 2014, likely by 6 per cent over the year, and a slow rebound from 2015 onwards. If Greentown were to bring in a partner, this was expected to result in a growth rate that would rise to match the forecasted industry growth rates of 4 per cent, 8 per cent, 8 per cent, and 7 per cent each year from 2015 until 2018. Growth after 2018 would be assumed to be at 4 per cent per annum—a conservative long-term growth rate for this industry in China. To compete in this increasingly tight market, it was also expected that Greentown’s earnings before interest and taxes (EBIT) margins would tighten from 20 per cent in 2014 to 18 per cent in 2015 and stay at that level going forward (see Exhibit 3).

**GREENTOWN’S PAST WOES**

This was not the first time that Greentown had faced challenging conditions. In 2004, Greentown had been forced into a major restructuring that ultimately resulted in an initial public offering (IPO) in Hong Kong in July 2006 to raise much-needed capital; it raised HK$2.66 billion.[[37]](#endnote-37) Even though the IPO stabilized Greentown’s financial state, it was not for long, as, shortly after the listing, Song led the company into a land-acquisition spree with heavy borrowing.[[38]](#endnote-38) The aggressive expansion allowed Greentown to become one of the largest players in the market but continued to drain its cash flow. By the end of 2008, Greentown’s cash balance had been almost halved from a year earlier, and its leverage had risen 59 per cent, to 140 per cent.[[39]](#endnote-39)

In April 2009, Greentown was on the brink of bankruptcy. Its major problem was the restrictive covenants on a US$400 million bond issued a month before the IPO.[[40]](#endnote-40) To save itself from bankruptcy, Greentown had to declare itself in breach of the bond’s covenants and repurchase the bond. To fund ongoing operations, Greentown began to rely heavily on trust loans pledged by its projects and land parcels.[[41]](#endnote-41) This higher-cost financing pushed Greentown’s leverage to a high of 163.2 per cent in early 2011; the company had a negative cash flow, and sales remained weak. In late September 2011, its share price tumbled more than 40 per cent in a week based on rumours that China’s banking regulators were investigating Greentown’s financing through trusts (see Exhibit 4).[[42]](#endnote-42)

To improve its capital structure and regain some financial stability, Greentown did several things: In late 2011, it sold six projects to raise ¥6 billion.[[43]](#endnote-43) In June 2012, Greentown issued 400 million new shares, which accounted for 24.6 per cent of the company on a fully diluted basis, to Hong Kong–based real estate group the Wharf Holdings Limited (Wharf), for HK$1.7 billion.[[44]](#endnote-44) Greentown also raised a further HK$3.4 billion through convertible bonds issued to Wharf. If Wharf were to exercise its conversion option, it would have become the single largest shareholder, with over 35 per cent ownership. After the new share issue, the stakes of Song’s family and Shou were diluted to 25.4 per cent and 18.1 per cent, from 33.0 per cent and 23.4 per cent, respectively. Most importantly, the company’s leverage also fell to around 50 per cent, below the industry average. “Cooperation is a vital impetus for the future of Greentown,” Song said at the press conference announcing the deal with Wharf. “The company’s era of being burdened by debt is gone.”[[45]](#endnote-45)

Efforts to counter the company’s financial risks continued after the deals with Wharf. In fact, two weeks later, Greentown formed a 50:50 project joint venture (JV) in Shanghai with Hong Kong–listed developer Sunac China Holdings Limited (Sunac). Greentown injected a significant number of projects and land into the JV, and Sunac contributed ¥3.3 billion in cash.[[46]](#endnote-46) This allowed Sunac to gain a much-sought-after entry into Shanghai and allowed Sunac’s founder and controlling shareholder, Sun Hongbin, to help Greentown. Sun had faced similar liquidity issues before: he had had to sell his first property business due to liquidity issues arising from overexpansion.[[47]](#endnote-47)

By 2012, the improvement in Greentown’s financial situation led its weighted average cost of capital (WACC) to go from 14 per cent to less than 9 per cent.[[48]](#endnote-48) Greentown also slowed its land acquisitions, changed its sales strategy, and adopted a partnership strategy to control land costs. By 2013, Greentown had exceeded its annual sales target and recorded a total revenue of ¥29 billion. By March 2014, Greentown’s financial situation had improved to the point where its WACC was 6.88 per cent (see Exhibit 5).[[49]](#endnote-49)

**A LACK OF SUCCESSION PLANNING**

It was clear that Song was the heart and soul of Greentown. In 2014, the board of directors at Greentown consisted of Song, Shou, three other executive directors from Greentown, two non-executive directors from Wharf, and four non-executive independent directors.[[50]](#endnote-50) Luo Zhaoming, 48, was the vice-chair responsible for Greentown’s customer relations and landscape service system construction.[[51]](#endnote-51) Luo joined Greentown after a share placement in 2009, and he still owned 5.23 per cent of Greentown. Guo Jianfeng, 49, was the executive general manager responsible for property development projects. He had been with Greentown since 2000. Cao Zhounan, 45, managed the overall operations and the construction management business. Cao was a government official at the provincial finance bureau before joining Greentown in 2009.

**RELATIONSHIPS WITH STRATEGIC PARTNERS**

Controlled by the family of Hong Kong billionaire Peter Woo, Wharf was among Hong Kong’s biggest landlords. Investment property income contributed one-third of its revenue of HK$32 billion and almost three-quarters of its operating profit in 2013.[[52]](#endnote-52) The partnership with Greentown was a beneficial and opportunistic move that gave Wharf sought-after opportunities to enter the mainland China property market. Wharf now had a market-savvy local partner to work with on high-quality projects in China. Wharf’s managers had stated that they were not seeking to control or buy out Greentown but would rather adopt a hands-off approach, leaving the day-to-day operations in the hands of Song and Shou.[[53]](#endnote-53)

Despite its hands-off approach, Wharf would not support Song when he tried to use Greentown’s assets to develop some of his outside projects. While Wharf was focused on the current business model and its synergies with Wharf, in recent years, Song had become interested in construction management and agriculture, as well as building the best seniors’ housing and elderly care services company in China, where the population was aging.[[54]](#endnote-54)

On the other hand, both Sun and Song had taken significant risks to get where they were today.[[55]](#endnote-55) Known as a legendary entrepreneur, Sun had graduated from China’s prestigious Tsinghua University. He was jailed in 1992 on charges of misappropriating funds while working at Chinese computer manufacturer Lenovo Group. The conviction was overturned in 2003, and after Sun was released, Lenovo founder Liu Chuanzhi lent him ¥500,000 to start a property business. However, due to overexpansion, Sun had to sell the company. He used the proceeds to create the company that later became Sunac.[[56]](#endnote-56)

Listed in Hong Kong in 2010, Sunac was an integrated residential and commercial property developer, with projects mainly in northern Chinese cities such as Tianjin and Beijing. It developed a wide range of properties, including high-rise and mid-rise residences, detached villas, townhouses, retail properties, offices, and car parks. At the end of 2013, it owned 59 projects and had a land bank of 21.1 million m2. Sunac was also positioned as a high-end developer, though its average selling price was significantly lower than Greentown’s, at ¥17,517 per m2.[[57]](#endnote-57)

Sunac was proud of its strong execution, sales force, and cost management. At Sunac, everything was results oriented and sales driven. Unlike Song, who was determined to wow the market with projects of the highest standards, Sun believed the most important thing was to provide customers with what they wanted. Each Sunac project was designed after careful market research. The development and sales teams followed a “5-9-12” timeline, meaning development had to commence within five months of the land acquisition, sales had to start within nine months, and the shareholders’ loan on the project had to be returned within 12 months. This strong sales turnover supported Sunac’s growth with a solid cash flow and led to strong financial results. [[58]](#endnote-58)

The strategic partnership with Greentown opened a fast track for Sunac’s entry into Yangtze River Delta cities such as Shanghai and Hangzhou. The JV did not let either of the parties down. In 2013, sales from the JV alone reached ¥150 billion in Shanghai—the largest among property brands in the city.[[59]](#endnote-59) The JV also allowed Sunac’s much tighter financial controls to improve efficiency at Greentown, although this was not always viewed positively by Greentown’s senior management. Nevertheless, it was expected that (a) the improved financial controls would allow Greentown to decrease its working capital from 100 per cent of sales in 2014 to 90 per cent by 2018, (b) the level of depreciation would stabilize to the average of the past three years, and (c) the level of capital expenditure would decline to 1 per cent within five years.[[60]](#endnote-60)

**Mergers and acquisitions ACTIVITIES IN the CHINese PROPERTY MARKET**

Mergers and acquisitions were an important tool for expanding real estate companies. In China, such deals involved small and medium-sized developers being acquired by larger players. Two high profile deals took place in 2006. In August of that year, China Vanke Company Ltd. (Vanke) acquired 60 per cent of Zhejiang-based, privately held Nandu Property Group Co. Ltd. (Nandu) for ¥1.85 billion, fulfilling its ambition to enter the local market.[[61]](#endnote-61) The 12 Nandu projects associated with this deal were valued at ¥12.5 billion.[[62]](#endnote-62) The other deal was the sale of Sun’s private business, Sunco, to Road King Infrastructure Limited (Road King); Road King paid ¥1.28 billion for a 55.0 per cent stake in September 2006 and a further ¥1.3 billion for another 39.7 per cent four months later.[[63]](#endnote-63)

Since late 2013, insurance companies had been acquiring large positions in real estate companies through the secondary market. During the market downturn, real estate companies with solid property assets became attractive targets for institutional investors, especially insurers. For example, in April 2014, privately held life insurer Sino Life Insurance Company Limited emerged as the largest shareholder of Shanghai-listed Gemdale Corporation, having accumulated a 24.82 per cent stake from the market over the previous year.[[64]](#endnote-64) In the same month, Anbang Insurance Group Co. Ltd. also acquired 5 per cent of Vanke.[[65]](#endnote-65) There was a very active market for the acquisition of shares in real estate firms through both negotiated block sales and gradual acquisitions through the market. These deals influenced the stock price of Greentown (see Exhibit 4) and affected the valuations of firms in the real estate industry (see Exhibit 5).

**DECISION**

Facing challenges from the macro economy, Song had to decide what to do in response to the current state of the Chinese real estate market. While his real estate empire was currently worth almost HK$17 billion, there were challenges ahead. As a result, Song had several questions to consider: Should he maintain control over the company? Should he remain as the controlling shareholder but relinquish his management position? Should he sell some or all of his position? If he decided to sell, he would have to consider the role played by different potential buyers or partners, such as Greentown’s current significant shareholder, Wharf, and its JV partner, Sunco. He could also sell his shares on the open market. Were there other potential partners who could better achieve Song’s goals for the firm?

To determine the best alternative involving a potential sales of shares, it was important to evaluate the trade-offs regarding the price he could get for his shares based on the buyer and the level of control given to the buyer. Evaluating the different alternatives required the performance of several valuations to determine the fair market price for Greentown under different scenarios. The most common valuation ratio for real estate firms was market value to net asset value (the usual discount in the industry was a market value of 30 per cent less than the net asset value). These valuations could be performed using comparative values of other Chinese real estate companies (see Exhibit 5) and market forecasts using different multiples.

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**Exhibit 1: GREENTOWN SHAREHOLDING STRUCTURE IN APRIL 2014**



Source: Created by the case author using data from Greentown China Holdings Limited, Conditional Sale of Shares; Proposed Resignation of Executive Directors; Proposed Appointment of Co-chairmen, Executive Director and Non-executive Director; Proposed Change of Composition of the Nomination Committee (announcement), accessed November 11, 2018, <http://www3.hkexnews.hk/listedco/listconews/SEHK/2014/0522/LTN20140522779.pdf>.

**Exhibit 2: OVERVIEW OF RESIDENTIAL PROPERTY MARKET IN CHINA IN 2014**

Source: Created by the case author using data from Alexander Cooper and Arianna Cowling, “China’s Property Sector,” *Reserve Bank of Australia Bulletin*, March 2015, accessed August 8, 2018, www.rba.gov.au/publications/bulletin/2015/mar/pdf/bu-0315-5.pdf.

**Exhibit 3: GREENTOWN FINANCIAL STATEMENTS (in ¥ Millions)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Income Statement** |  |  |  |
| **For the Fiscal Period Ending** | **Dec-31-2011** | **Dec-31-2012** | **Dec-31-2013** |
| ***Currency*** | ***CNY*** | ***CNY*** | ***CNY*** |
|  |  |  |  |
| Revenue | 21,963.7 | 35,392.5 | 28,990.6 |
| Cost of Goods Sold | 14,555.4 | 24,678.8 | 20,215.2 |
| **Gross Profit** | **7,408.4** | **10,713.7** | **8,775.4** |
|  |  |  |  |
| Selling General & Administrative Expenses | 1,919.9 | 2,069.0 | 2,340.3 |
| Depreciation & Amortization | 147.6 | 169.4 | 158.6 |
| Other Operating Expense/(Income) | - | - | - |
| **Other Operating Expense, Total** | **2,067.5** | **2,238.4** | **2,498.9** |
|  |  |  |  |
| **Operating Income** | **5,340.9** | **8,475.3** | **6,276.4** |
|  |  |  |  |
| Interest Expense | (415.7) | (564.1) | (506.8) |
| Interest and Investment Income | 376.2 | 700.5 | 494.9 |
| **Net Interest Expenses** | **(39.5)** | **136.4** | **(11.9)** |
|  |  |  |  |
| Income/(Loss) from Affiliates | 833.2 | 513.5 | 1,570.0 |
| Currency Exchange Gains (Loss) | 196.5 | 26.1 | 140.1 |
| Other Non-operating Income (Expenses) | 279.5 | 356.5 | 143.2 |
| **EBT Excluding Unusual Items** | **6,758.0** | **9,677.1** | **8,276.4** |
|  |  |  |  |
| Impairment of Goodwill | - | 3.4 | 704.1 |
| Gain (Loss) on Sale of Investments | 106.1 | 107.9 | 3.9 |
| Gain (Loss) on Sale of Assets | 24.6 | 549.7 | - |
| Asset Writedown | (188.0) | (80.9) | 161.6 |
| Other Unusual Items | - | - | - |
| **EBT Including Unusual Items** | **6,700.7** | **10,257.2** | **9,146.1** |
|  |  |  |  |
| Income Tax Expense | 2,582.8 | 4,204.1 | 3,155.9 |
| **Earnings from Continuing Operations** | **4,117.9** | **6,053.1** | **5,990.2** |
|  |  |  |  |
| Minority Interest in Earnings | (1,543.3) | (1,201.9) | (1,104.7) |
| **Net Income** | **2,574.6** | **4,851.1** | **4,885.5** |
|  |  |  |  |
| **Per Share Items** |  |  |  |
| Basic EPS | 1.57 | 2.57 | 2.18 |
| Diluted EPS | 1.55 | 2.37 | 1.94 |
|  |  |  |  |
| Dividends per Share | 0.1 | 0.5 | 0.43 |
| Payout Ratio (%) | 22.9% | 3.4% | 25.8% |
|  |  |  |  |
| **Supplemental Items** |  |  |  |
| EBITDA | 5,630.8 | 8,804.9 | 6,584.1 |
| EBIT | 5,488.5 | 8,644.7 | 6,435.0 |

**Exhibit 3 (continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance Sheet (as of)** | **Dec-31-2011** | **Dec-31-2012** | **Dec-31-2013** |
| ***Currency*** | ***CNY*** | ***CNY*** | ***CNY*** |
| **ASSETS** |  |  |  |
| Cash and Equivalents | 3,615.1 | 6,163.6 | 10,686.0 |
| Short-Term Investments | 234.7 | - | - |
| **Total Cash & Short-Term Investments** | **3,849.9** | **6,163.6** | **10,686.0** |
| Accounts Receivable | 15,534.6 | 22,079.0 | 25,393.0 |
| Other Receivables | 1,599.3 | 1,402.6 | 1,176.0 |
| Notes Receivable | 1,467.2 | 643.6 | 522.8 |
| **Total Receivables** | **18,601.0** | **24,125.2** | **27,091.8** |
| Inventory | 84,755.9 | 56,563.3 | 58,412.1 |
| Prepaid Expenses | 2,518.6 | 1,464.7 | 1,262.9 |
| Other Current Assets | 5,489.0 | 5,017.0 | 4,169.2 |
| **Total Current Assets** | **115,214.4** | **93,333.9** | **101,622.0** |
|  |  |  |  |
| Gross Property, Plant & Equipment | 3,359.5 | 4,400.0 | 5,820.2 |
| Accumulated Depreciation | (498.3) | (724.7) | (956.2) |
| **Net Property, Plant & Equipment** | **2,861.1** | **3,675.3** | **4,864.1** |
| Long-Term Investments | 7,230.7 | 7,923.6 | 12,240.9 |
| Goodwill | - | - | - |
| Deferred Tax Assets, Long Term | 728.2 | 782.2 | 1,053.2 |
| Other Long-Term Assets | 1,942.1 | 1,992.3 | 2,555.4 |
| **Total Assets** | **127,976.5** | **107,707.3** | **122,335.7** |
|  |  |  |  |
| **LIABILITIES** |  |  |  |
| Accounts Payable | 7,910.9 | 10,814.7 | 10,531.4 |
| Accrued Expenses | 926.5 | 985.1 | 6,744.7 |
| Short-Term Borrowings | 9,972.8 | 3,210.1 | 5,266.1 |
| Current Portion of Long-Term Debt | 16,063.8 | 15,186.3 | 5,961.4 |
| Current Income Taxes Payable | 2,935.3 | 5,389.7 | 5,777.8 |
| Unearned Revenue, Current | 45,758.8 | 28,848.3 | 23,428.4 |
| Other Current Liabilities | 9,290.4 | 9,128.3 | 7,417.6 |
| **Total Current Liabilities** | **92,858.4** | **73,562.5** | **65,127.4** |
|  |  |  |  |
| Long-Term Debt | 16,048.1 | 6,117.8 | 24,493.6 |
| Deferred Tax Liability, Non-Current | 434.5 | 538.9 | 703.7 |
| Other Non-Current Liabilities | 992.2 | - | - |
| **Total Liabilities** | **110,333.2** | **80,219.2** | **90,324.7** |
| Common Stock | 166.4 | 207.4 | 208.7 |
| Additional Paid in Capital | 6,299.7 | 8,395.8 | 8,530.3 |
| Retained Earnings | 5,719.1 | 10,597.5 | 14,222.8 |
| Comprehensive Income and Other | (245.4) | 1,941.5 | 1,985.6 |
| **Total Common Equity** | **11,939.9** | **21,142.2** | **24,947.3** |
|  |  |  |  |
| Minority Interest | 5,703.4 | 6,345.9 | 7,063.6 |
| **Total Equity** | **17,643.3** | **27,488.1** | **32,011.0** |
|  |  |  |  |
| **Total Liabilities and Equity** | **127,976.5** | **107,707.3** | **122,335.7** |
|  |  |  |  |
| **Supplemental Items** |  |  |  |
| Total Shares Outstanding on Balance Sheet | 1,640.0 | 2,143.2 | 2,158.5 |
| Net Asset Value | 64,112.20 | 54,976.70 | 44,515.70 |
| Net Asset Value per Share | 39.09 | 25.65 | 20.62 |

**Exhibit 3 (continued)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash Flow** |  |  |  |
| **For the Fiscal Period Ending** | **Dec-31-2011** | **Dec-31-2012** | **Dec-31-2013** |
| ***Currency*** | ***CNY*** | ***CNY*** | ***CNY*** |
|  |  |  |  |
| **Net Income** | **2,574.6** | **4,851.1** | **4,885.5** |
| Depreciation & Amortization | 142.3 | 160.3 | 149.0 |
| **Depreciation & Amortization, Total** | **142.3** | **160.3** | **149.0** |
|  |  |  |  |
| Other Amortization | 5.3 | 9.1 | 9.6 |
| (Gain) Loss from Sale of Assets | (24.5) | (550.5) | (1.4) |
| (Gain) Loss on Sale of Investments | (106.1) | (111.3) | (3.9) |
| Asset Writedown & Restructuring Costs | (18.1) | 80.9 | (865.7) |
| (Income) Loss on Equity Investments | (833.2) | (513.5) | (1,570.0) |
| Stock-Based Compensation | 11.9 | 1.2 | - |
| Other Operating Activities | 2,363.2 | 3,946.0 | 961.0 |
| Change in Accounts Receivable | 70.4 | (745.4) | 336.7 |
| Change in Inventories | (7,651.3) | 5,538.0 | 1,213.2 |
| Change in Accounts Payable | 4,754.1 | 5,148.0 | 1,338.8 |
| Change in Unearned Revenue | (444.0) | (14,148.1) | (5,624.5) |
| Change in Other Net Operating Assets | (969.7) | 1,033.9 | 445.6 |
| **Cash from Operations** | **(124.9)** | **4,699.8** | **1,273.8** |
|  |  |  |  |
| Capital Expenditure | (569.2) | (1,077.7) | (1,384.7) |
| Sale of Property, Plant & Equipment | 6.4 | 4.8 | 3.1 |
| Cash Acquisitions | (20.0) | 121.9 | (90.2) |
| Divestitures | 304.7 | 7,597.1 | 323.6 |
| Investments in Marketable & Equity Securities | (2,650.6) | (351.8) | (4,310.5) |
| Net (Income) Decrease in Loans Originated/Sold | - | - | - |
| Other Investing Activities | (573.2) | 417.1 | 474.3 |
| **Cash from Investing** | **(3,501.9)** | **6,711.5** | **(4,984.4)** |
| Short-Term Debt Issued | 3,323.8 | - | 3,217.9 |
| Long-Term Debt Issued | 14,958.5 | 11,483.2 | 25,750.2 |
| **Total Debt Issued** | **18,282.2** | **11,483.2** | **28,968.2** |
| Short-Term Debt Repaid | (3,150.0) | (2,988.2) | - |
| Long-Term Debt Repaid | (16,809.8) | (18,695.2) | (16,958.8) |
| **Total Debt Repaid** | **(19,959.8)** | **(21,683.4)** | **(16,958.8)** |
|  |  |  |  |
| Issuance of Common Stock | 33.9 | 2,126.7 | 111.6 |
| Common Dividends Paid | (589.0) | (164.0) | (1,260.2) |
| **Total Dividends Paid** | **(589.0)** | **(164.0)** | **(1,260.2)** |
|  |  |  |  |
| Other Financing Activities | (2,924.0) | (625.4) | (2,623.3) |
| **Cash from Financing** | **(5,156.7)** | **(8,862.8)** | **8,237.4** |
|  |  |  |  |
| Foreign Exchange Rate Adjustment | (9.0) | 0.0 | (4.3) |
| **Net Change in Cash** | **(8,792.5)** | **2,548.5** | **4,522.4** |

Note: EBT = earnings before tax; EPS = earnings per share; EBITDA = earnings before interest, tax, depreciation, and amortization; EBIT = earnings before interest and tax.

Source: Created by the case authors using data from S&P Capital IQ, accessed November 20, 2018.

**Exhibit 4: VOLATILITY OF GREENTOWN Hong Kong SHARES As compared TO  
HANG SeNG INDEX**

Source: Created by the case author using data from Yahoo! Finance.

Exhibit 5: COMPARABLE VALUATIONS OF Hong Kong–LISTED CHINESE REAL ESTATE COMPANIES, AS OF march 31, 2014

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Greentown HKEX: 3900 | China Evergrande Group HKEX: 3333 | Sino-Ocean Group Holding Ltd. HKEX: 3377 | Country Garden Holdings Co. Ltd. HKEX: 2007 | Shimao Property Holdings Ltd. HKEX: 0813 | Longfor Group Holdings Ltd. HKEX: 0960 | China Resources Land Ltd. HKEX: 1109 | Sunac China Holdings Ltd. HKEX: 1918 |
| Last Price (in HK$) | 8.38 | 3.66 | 4.24 | 3.19 | 17 | 10.7 | 17.02 | 4.50 |
| Market Capitalization (in HK$ millions) | 18,088.81 | 53,297.11 | 30,880.14 | 59,802.41 | 59,033.72 | 58,224.4 | 99,241.9 | 14,972.27 |
| Earnings per Share (in HK$) | 1.36 | 0.39 | 0.40 | 0.22 | 1.13 | 0.77 | 1.76 | 0.72 |
| Price/Earnings Ratio | 3.07 | 3.72 | 5.79 | 5.64 | 6.39 | 5.79 | 6.75 | 3.76 |
| Price/Book Ratio | 0.58 | 0.97 | 0.65 | 1.09 | 1.13 | 1.26 | 1.17 | 0.88 |
| Dividend Yield | 6.22 | 16.09 | 5.85 | 6.07 | 5.43 | 2.90 | 2.66 | 6.06 |
| Net Income (in HK$ millions) | 3,030.59 | 7,031.06 | 2,657.68 | 4,197.91 | 3,919.69 | 4,191.55 | 10,311.61 | 2,425.98 |
| EBIT (in HK$ millions) | 4,396.57 | 13,793.33 | 4,887.62 | 5,930.89 | 6,365.51 | 6,552.00 | 16,733.68 | 4,683.30 |
| EV/EBIT Ratio | 6.40 | 5.81 | 7.54 | 6.96 | 7.66 | 5.86 | 6.21 | 5.30 |
|  |  |  |  |  |  |  |  |  |
| Debt to Equity | 95.31 | 137.15 | 81.24 | 122.25 | 95.13 | 94.78 | 72.69 | 157.62 |
| WACC | 6.88 | 4.60 | 6.49 | 8.63 | 8.29 | 7.77 | 8.63 | 6.19 |

Note: EBIT = earnings before interest and taxes; EV = enterprise value; WACC = weighted average cost of capital.

Source: Created by the case author using data from Bloomberg Terminal and S&P Capital IQ.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Greentown China Holdings or any of its employees. [↑](#endnote-ref-1)
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