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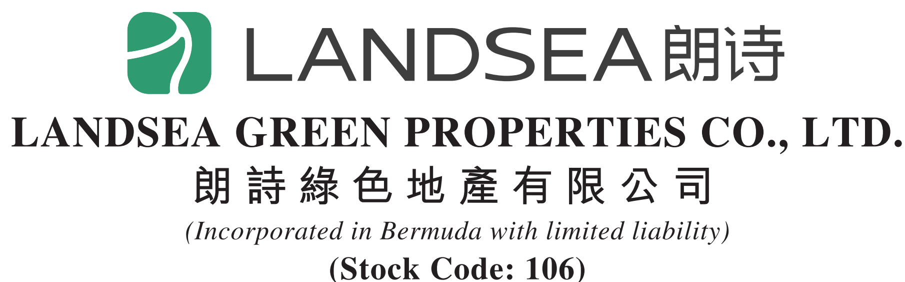
If you have sold or transferred all your shares in Landsea Green Properties Co., Ltd., you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



LANDSEA GREEN PROPERTIES CO., LTD.

朗詩綠色地產有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

MAJOR TRANSACTIONS IN RELATION TO (1) THE CREDIT AGREEMENT; AND (2) DISPOSAL OF EQUITY INTERESTS IN LANDSEA HOMES CORPORATION

Financial Adviser to the Company

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED

滙博資本有限公司

A letter from the Board is set out on pages 5 to 20 of this circular.

This circular is despatched to the Shareholders for information purpose only, and a written Shareholder's approval has been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

8 August 2022

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In this circular the following expressions have the following meanings unless the context requires otherwise:

"Board"	board of Directors
"Company"	Landsea Green Properties Co., Ltd., a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange (stock code: 106)
"Completion"	completion of the Disposal
"connected person(s)"	has the meanings as defined in the Listing Rules
"Consideration"	the sale price of US$9.30 per share of LSEA Stock for a total consideration of US$45,000,000 payable to LHC pursuant to the Stock Purchase Agreement
"Credit Agreement"	a credit agreement dated 12 May 2022 entered into between LHC and the Lender, pursuant to which the Lender agreed to provide the Loan in a principal amount of US$45,000,000 to LHC
"Deeds of Guarantee"	the guaranties entered into by the Guarantors with or in favor of the Lender in connection with the Credit Agreement
"Director(s)"	director(s) of the Company
"Disposal"	the proposed disposal of the Sale Shares by LHC to the Purchaser pursuant to the terms of the Stock Purchase Agreement
"Easycorps"	Easycorps Group Limited, a company wholly-owned by Mr. Tian Ming
"Facility Termination Date"	the first anniversary of the date of the Credit Agreement, subject to extension as described in the paragraph headed "The Credit Agreement — Facility Termination Date"
"Financial Adviser"	Rainbow Capital (HK) Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser to the Company as to working capital sufficiency
"First Put Exercise Period"	the period commencing on 1 March 2023 and the thirty days thereafter

"Greensheid"	Greensheid Corporation, a wholly-owned subsidiary of Landsea International
"Group"	the Company and its subsidiaries
"Guarantors"	collectively, Landsea Group and Landsea International
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Landsea Group"	朗詩集團股份有限公司 (Landsea Group Co., Ltd), a limited liability company established under the laws of the PRC, a controlling shareholder of the Company and is owned as to 34.15% by Nanjing Ding Chong Investment Management Consultants Ltd., a company wholly and beneficially owned by Mr. Tian Ming, and as to 15.85% by Mr. Tian Ming
"Landsea Homes"	Landsea Homes Corporation, a company incorporated under the State of Delaware in the USA and the common stock of which are listed on NASDAQ, and a non-wholly owned subsidiary of the Company
"Landsea International"	Landsea International Holdings Limited, a controlling shareholder of the Company
"Latest Practicable Date"	2 August 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Lender"	1103849 B.C. LTD., a company incorporated under the laws of British Columbia in Canada
"Lender Stock Payment Election Right"	the right of the Lender to elect that LHC repays the principal of the Loan with LSEA Stock rather than immediately available funds if the Facility Termination Date shall have been extended in accordance with the terms of the Credit Agreement
"LHC"	Landsea Holdings Corporation, a company incorporated under laws of the State of Delaware in the USA and an indirect wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Loan"	the principal amount of US$45,000,000 to be advanced by the Lender to LHC under and pursuant to the Credit Agreement
"Loan Documents"	collectively, the Credit Agreement, the Pledge Agreement, the Deeds of Guarantee, any notes, and any other document or agreement now or in the future executed by any Loan Party for the benefit of the Lender in connection with the Credit Agreement
"Loan Parties"	collectively, LHC and the Guarantors
"LSEA Stock"	the common shares of Landsea Homes
"NASDAQ"	National Association of Securities Dealers Automated Quotations capital market
"Pledge Agreement"	a pledge and security agreement dated 12 May 2022 entered into between LHC and the Lender, pursuant to which LHC agreed to pledge the Pledged LSEA Stock as security for the Loan
"Pledged LSEA Stock"	4,838,710 shares of LSEA Stock
"Potential Acquisition"	the potential acquisition of all or a portion of the Sale Shares of LSEA Stock contemplated under the Put Option Agreement in the event that Put Right is exercised
"Potential Disposal"	the potential disposal of 4,838,710 shares of LSEA Stock contemplated under the Credit Agreement in the event that the Lender Stock Payment Election Right is exercised or the Lender elects to require all or any portion of the outstanding principal of the Loan be repayable with LSEA Stock after the occurrence of the applicable default or event of default
"PRC"	the People's Republic of China
"Purchaser"	Green Investment Alpha Limited, a company incorporated in the British Virgin Islands with limited liability
"Put Exercise Notice"	an irrevocable written notice, in the form as set out in the Put Option Agreement, specifying the number of Sale Shares to be sold, to be delivered to LHC by the Purchaser
"Put Exercise Period"	First Put Exercise Period or Second Put Exercise Period

"Put Option Agreement"	the put option agreement dated 31 May 2022 entered into by LHC and the Purchaser, as one of the completion documents under the Stock Purchase Agreement
"Put Right"	the right of the Purchaser to cause LHC to purchase all or a portion of the Sale Shares pursuant to the terms of the Put Option Agreement
"Put Shares"	the Sale Shares to be sold by the Purchaser pursuant to the Put Exercise Notice
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	4,838,710 shares of LSEA Stock, approximately 10.7% of the issued and outstanding shares of LSEA Stock
"SEC"	the United States Securities and Exchange Commission
"Second Put Exercise Period"	the period commencing on 1 March 2024 and the thirty days thereafter
"Securities Act"	the United States Securities Act of 1933, as amended from time to time
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Stock Purchase Agreement"	the stock purchase agreement dated 31 May 2022 entered into by LHC and the Purchaser in relation to the Disposal
"US GAAP"	generally accepted accounting principles in the USA
"US$"	United States dollar, the lawful currency of United States of America
"USA"	the United States of America
"%"	per cent.

* *For identification purpose only.*

LANDSEA GREEN PROPERTIES CO., LTD.
朗詩綠色地產有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

Executive Directors:
Mr. Tian Ming
Mr. Huang Zheng

Non-executive Directors:
Mr. Xu Liang
Mr. Liu Pengpeng

Independent Non-executive Directors:
Mr. Xu Xiaonian
Mr. Chen Tai-yuan
Mr. Rui Meng

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Unit 5103, 51/F
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99 Queen's Road Central
Hong Kong

8 August 2022

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO (1) THE CREDIT AGREEMENT; AND (2) DISPOSAL OF EQUITY INTERESTS IN LANDSEA HOMES

1. INTRODUCTION

References are made to the announcements of the Company (a) dated 13 May 2022 in relation to the Credit Agreement and the Potential Disposal contemplated thereunder; and (b) dated 31 May 2022 in relation to the Disposal and the Put Right. The purpose of this circular is to provide you with, among other things, further details about the Credit Agreement and the Potential Disposal, the Disposal, the Put Right and the transactions contemplated thereunder and other information as required under the Listing Rules.

2. POTENTIAL DISPOSAL

On 12 May 2022 (United States Eastern Standard Time), LHC, an indirect wholly-owned subsidiary of the Company, and the Lender entered into the Credit Agreement, pursuant to which the Lender conditionally agreed to provide the Loan in a principal amount of US$45,000,000 to LHC.

The Credit Agreement

Set out below are the principal terms of the Credit Agreement:

Principal amount of the Loan: US$45,000,000

Application of the Loan: For the general corporate purposes, including working capital

Interest rate: Ten percent (10%) per annum

Conditions precedent: The Lender shall not be required to make the Loan unless each of the following conditions is satisfied:

(a) The Lender shall have received, among others, Loan Documents executed by the Loan Parties, together with such other instruments and documents as the Lender requests to obtain a perfected, first-priority lien on the collateral.

(b) LHC shall have provided to the Lender the documentation and other information requested in connection with applicable ''know your customer'' and antimoney-laundering laws.

(c) The Lender shall have received Form G-3 under Regulation U of the Board of Governors of the Federal Reserve System, properly completed for LHC.

(d) The Lender shall have received such other agreements, documents, opinions, instruments and certificates as the Lender reasonably requires.

(e) No default or event of default exists or would result therefrom.

(f) The representations and warranties in the Credit Agreement are true and correct in all material respects.

Facility Termination Date:	The first anniversary of the date of the Credit Agreement, which may be extended provided that (a) LHC requests by written notice to the Lender not earlier than 120 days and not later than 100 days prior to the initial Facility Termination Date for an extension of the Facility Termination Date for an additional twelve months from the initial Facility Termination Date; and (b) the Lender, at its sole and individual discretion, gives written notice not later than 90 days prior to the initial Facility Termination Date to LHC that it agrees to such extension.
Repayment:	Principal of the Loan and all outstanding interest shall be payable on the Facility Termination Date.
Security:	LHC shall pledge the Pledged LSEA Stock as security for the Loan.
Guarantee:	Each of Landsea Group and Landsea International shall guarantee the full and punctual payment by LHC under the Credit Agreement.

Potential disposal of LSEA Stock

If the Facility Termination Date shall have been extended as requested by the Borrower in the manner provided in the Credit Agreement, and the Lender shall have provided written notice to LHC, not less than 90 days prior to such Facility Termination Date, of the Lender's election to exercise the Lender Stock Payment Election Right, LHC shall repay the outstanding principal of the Loan with LSEA Stock in lieu of immediately available funds on the extended Facility Termination Date, together with accrued interest on such principal, which shall be paid in cash. The number of shares of LSEA Stock required to repay the outstanding principal of the Loan pursuant to the Credit Agreement shall be determined by dividing the outstanding principal of the Loan by US$9.30, provided that transfer of such number of LSEA Stock would not cause LHC's beneficial ownership in LSEA Stock to drop below 50% of the issued and outstanding shares of LSEA Stock. Assuming that the outstanding principal of the Loan is US$45,000,000, the maximum number of shares of LSEA Stock which may be transferred will be 4,838,710 shares, which represented 10.7% of the issued and outstanding shares of LSEA Stock as at the date of the Credit Agreement.

The settlement price of US$9.30 per share of LSEA Stock represents:

(a) a premium of approximately 21% over the closing price of US$7.67 per share of LSEA Stock as quoted on NASDAQ immediately preceding the date of the Credit Agreement; and

(b) a premium of approximately 14% over the closing price of US$8.14 per share of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately preceding the date of the Credit Agreement.

In the event that the Loan (a) is not repaid on the Facility Termination Date or (b) the Loan shall have been accelerated following the occurrence of an event of default, and the Lender shall have, after the occurrence of the applicable default or event of default, given LHC at least 5 business days' prior notice of Lender's decision to purchase the shares at US$6.00 if such default is not cured or the Loan is not repaid in full, and offered LHC the opportunity to pay all of the obligations in cash at par prior to the later of (i) the expiration of such period, and (ii) the date the applicable default matures into an event of default, the Lender may elect by providing written notice to LHC to require all or any portion specified by the Lender of the outstanding principal of the Loan be immediately repayable with LSEA Stock, together with the balance of the remaining outstanding principal and all accrued interest be payable in cash. The number of shares of LSEA Stock required to so repay the outstanding principal of the Loan shall be determined by dividing the outstanding principal amount of the Loan by US$6.00 but in any case shall not exceed the number of Pledged LSEA Stock.

The settlement price of US$6.00 per share of LSEA Stock upon the occurrence of an event of default represents:

(a) a discount of approximately 22% to the closing price of US$7.67 per share of LSEA Stock as quoted on NASDAQ immediately preceding the date of the Credit Agreement; and

(b) a discount of approximately 26% to the closing price of US$8.14 per share of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately preceding the date of the Credit Agreement.

Each of the settlement price of US$9.30 per share of LSEA Stock under the Lender Stock Payment Election Right and the settlement price of US$6.00 per share of LSEA Stock after the occurrence of an event of default was determined with reference to the prevailing market price of LSEA Stock and the terms and conditions of the Credit Agreement and was negotiated on an arm's length basis between LHC and the Lender.

Reasons for and Benefits of the Loan and Intended Use of the Loan

The Group is principally engaged in development and sales of properties in the PRC and USA. The Loan will be primarily used as general corporate purposes.

The Directors consider that the Loan with the Potential Disposal represents an opportunity to improve the liquidity position of the Company and to raise funding for the Group's working capital. In light of the foregoing, the Directors consider that the Credit Agreement and the transactions contemplated thereunder are entered into upon normal commercial terms following arm's length negotiations between the parties, and that the underlying terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Financial Effect of the Potential Disposal

As at the date of the Credit Agreement, Landsea Homes was owned as to approximately 72.62% by LHC and was a subsidiary of the Company. Given that the potential transfer of LSEA Stock to the Lender under the potential disposal would not cause LHCs' beneficial ownership in LSEA Stock to drop below 50% of the issued and outstanding shares of LSEA Stock, Landsea Homes will continue to be an indirect non wholly-owned subsidiary of the Company and its financial results will continue to be consolidated into those of the Group upon completion of the potential disposal.

The decrease in the Company's shareholding in Landsea Homes will not result in the Company ceasing to control Landsea Homes, and it is expected that the Company will not record any gain or loss in the consolidated statement of profit or loss from the potential disposal under Hong Kong Financial Reporting Standards.

3. THE DISPOSAL

On 31 May 2022 (United States Eastern Daylight Time), LHC and the Purchaser entered into the Stock Purchase Agreement, pursuant to which, subject to the terms and conditions of the Stock Purchase Agreement, LHC agreed to sell, and the Purchaser agreed to purchaser, the Sale Shares, representing approximately 10.7% of the issued and outstanding shares of LSEA Stock as at the date of the Stock Purchase Agreement, at a sale price of US$9.30 per share of LSEA Stock for a total consideration of US$45,000,000.

Stock Purchase Agreement

The principal terms of the Stock Purchase Agreement are set out below:

Subject Matter

The Sale Shares represent approximately 10.7% of the issued and outstanding shares of LSEA Stock as at the date of the Stock Purchase Agreement.

Consideration and basis of determination

The Consideration is US$45,000,000 and was fully paid by the Purchaser to LHC in cash on the date of the Stock Purchase Agreement.

The sale price of US$9.30 per share of LSEA Stock represents:

(a) a premium of approximately 25.7% over the closing price of US$7.40 per share of LSEA Stock as quoted on NASDAQ immediately preceding the date of the Stock Purchase Agreement; and

(b) a premium of approximately 27.7% over the closing price of US$7.28 per share of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately preceding the date of the Stock Purchase Agreement.

The sale price of US$9.30 per share of LSEA Stock was determined with reference to the prevailing market price of LSEA Stock and the terms and conditions of the Stock Purchase Agreement and was negotiated on an arm's length basis between LHC and the Purchaser.

Completion

Completion took place on the date of the Stock Purchase Agreement.

Voting arrangement

Unless the Purchaser sells the Sale Shares or exercised the Put Right after the Completion so that the Purchaser no longer holds at least 6% of the issued and outstanding shares of LSEA Stock, LHC agrees, to the extent of the remaining LSEA Stock owned by LHC, to vote, at each following scheduled date for the election of directors of Landsea Homes, in favour of any one individual nominated by the Purchaser to serve as a director of Landsea Homes.

Pursuant to the Amendment No. 2 to the Stockholder's Agreement entered into between Landsea Homes and LHC dated 25 April 2022 (the ''**Stockholder's Agreement**''), LHC shall have the right to nominate for election to the board of Landsea Homes based on the following ownership percentage:

Combined ownership percentage	Director designees
50% plus one share	7
39%	4
28%	3
17%	2
6%	1

The voting arrangement under the Stock Purchase Agreement was determined with reference to the Stockholder's Agreement.

Lock-up

For a period of twelve months after Completion, the Purchaser agreed that it shall not sell, assign, dispose of or otherwise transfer, or encumber or hypothecate, any of the Sale Shares other than pursuant to the Put Option Agreement.

Put Option Agreement

In connection with the Stock Purchase Agreement, on 31 May 2022 (United States Eastern Daylight Time), LHC and the Purchaser entered into the Put Option Agreement pursuant to which, the Purchaser shall, for each of the First Put Exercise Period and the Second Put Exercise Period, have the right, but not obligation, to cause LHC to purchase all or a portion of the Sale Shares on the date that the Put Right is exercised. If the Purchaser desires to exercise the Put Right, with respect to any of the Sale Shares, the Purchaser shall deliver to LHC a Put Exercise Notice exercising the Put Right and specifying the number of the number of Sale Shares to be sold by the Purchaser pursuant to the Put Exercise Notice.

Purchase price for the Sale Shares

The purchase price for the Sale Shares subject to the exercise of the Put Right to be paid by LHC to the Purchaser shall be at a price of US$9.30 per Sale Share (the "**Put Purchase Price Per Share**" and, in the aggregate of all Put Shares, the "**Put Purchase Price**") provided that (i) such Put Purchase Price Per Share shall be appropriately adjusted to reflect any stock dividend, stock split, combination of shares, reclassification, recapitalisation or other similar event affecting the number of outstanding shares of LSEA Stock held by the Purchaser; and (ii) in case Landsea Homes shall pay a dividend in cash or make a distribution in cash, such Put Purchase Price Per Share shall be adjusted and reduced by the amount of such dividend or distribution payment per Sale Share. The Put Purchase Price Per Share was determined after arm's length negotiation between LHC and the Purchaser with reference to the sale price of US$9.30 per share of LSEA Stock.

Completion of the purchase of Put Shares

Completion of the purchase of the Put Shares shall take place:

(a) on 30 May 2023 if the Put Exercise Notice is issued within the First Put Exercise Period; or

(b) no later than 90 business days after delivery of a Put Exercise notice if the Put Exercise Notice is issued within the Second Put Exercise Period (the "**Put Right Closing Date**").

In the event LHC has not paid the Put Purchase Price on the fifth business day following the Put Right Closing Date, the Purchaser shall have the right to elect, by providing written notice of such election to LHC, to require that all or any portion specified by the Purchaser of the outstanding Put Purchase Price be immediately repayable with the Sale Shares (rather than immediately available funds), together with the balance of the remaining outstanding Put Purchase Price payable in cash. The number of shares of Sale Shares required to so repay the outstanding Put Purchase Price (i) shall be determined by dividing the outstanding Put Purchase Price by a price per share of Sale Shares equal to US$6.00, but shall not exceed the total number of Sale Shares, and (ii) shall be deemed automatically repaid with such number of shares of Sale Shares then held by the Purchaser, without any further action of LHC.

The purchase price of US$6.00 per share of LSEA Stock upon the occurrence of LHC's failure to pay the Put Purchase Price or an Event of Default represents:

(a) a discount of approximately 18.9% to the closing price of US$7.40 per share of LSEA Stock as quoted on NASDAQ immediately preceding the date of the Stock Purchase Agreement; and

(b) a discount of approximately 17.6% to the closing price of US$7.28 per share of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately preceding the date of the Stock Purchase Agreement.

Given that the Purchaser paid a premium of approximately 30% over the market price of LSEA Stock to acquire the Sale Shares, the Directors consider that giving a discount of approximately 20% to the market price of LSEA Stock to the Purchaser upon the occurrence of LHC's failure to pay the Put Purchase Price or an Event of Default is in the interests of the Company and the Shareholders as a whole.

Events of Default

Each of the following events shall constitute a default under the Put Option Agreement (an "**Event of Default**"):

(a) In the event that at any time after the date that is ninety (90) days after the date of the Put Option Agreement, until the expiration of the Put Exercise Period, neither a resale prospectus nor any applicable exemption from registration under the Securities Act is available to the Purchaser for selling any of the Sale Shares to any person other than LHC; and

(b) In the event that at any time after the date that is ninety (90) days after the date of the Put Option Agreement, until the expiration of the Put Exercise Period, LHC fails to use reasonable best efforts to cause Landsea Homes to maintain either the effectiveness of the resale registration statement or the listing of LSEA Stock on NASDAQ or any other national exchange.

Upon the occurrence of the first in time to occur of an Event of Default, the Purchaser's right to exercise the Put Right shall be accelerated in accordance with the terms of the Put Option Agreement so that it first becomes exercisable on the date of such Event of Default and continues, thereafter, until the expiration of the Second Put Exercise Period.

Guarantee

Each of Landsea Group and Landsea International agreed to provide a guarantee to the Purchaser for all the LHCs' payment obligations to the Purchaser under the Put Option Agreement.

Reasons for and Benefits of the Disposal

The Group is principally engaged in development and sales of properties in the PRC and USA. The Directors consider that the Disposal provides the Group with an opportunity to realise its investment in Landsea Homes and will enhance the overall liquidity of the Group. In light of the foregoing, the Directors consider that the Stock Purchase Agreement (together with the Put Option Agreement) and the transactions contemplated thereunder are entered into upon normal commercial terms following arm's length negotiations between LHC and Purchaser, and that the terms are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Financial Effect of the Disposal and Use of Proceeds

As at the date of the Stock Purchase Agreement, Landsea Homes was owned as to approximately 72.62% by LHC and was a subsidiary of the Company. Given that the Disposal would not cause LHC's beneficial ownership in LSEA Stock to drop below 50% of the issued and outstanding shares of LSEA Stock, Landsea Homes will continue to be an indirect non wholly owned subsidiary of the Company and its financial results will continue to be consolidated into those of the Group upon completion of the Disposal.

The Group estimates that the Disposal will record a pre-tax loss of approximately US$22.04 million in 2022, being the difference between the net proceeds from the Disposal and the net asset value of Sale Shares, subject to the final audit by the Company's auditors.

The sale proceeds from the Disposal being US$45 million are expected to be used for repaying the Company's indebtedness and as general working capital of the Group.

4. INFORMATION ON THE PARTIES

Landsea Homes

Landsea Homes is a non-wholly owned subsidiary of the Company. It was incorporated under laws of the State of Delaware in the USA and the common stock of which have been listed on NASDAQ since January 2021. Landsea Homes is principally engaged in real estate development, and is owned as to approximately 57.8% by the Company as at the Latest Practicable Date.

Pursuant to annual report of Landsea Homes pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, the audited consolidated financial results of Landsea Homes for the two financial years ended 31 December 2021 are as follows:

	For the year ended 31 December 2020 *(US$)*	For the year ended 31 December 2021 *(US$)*
(Loss)/Profit before taxation	(12,165,000)	66,730,000
(Loss)/Profit after taxation	(9,084,000)	52,735,000

As at 31 December 2021, the audited consolidated net assets of Landsea Homes was US$621,397,000.

There will be no variation in the aggregate remuneration payable to and benefits in kind receivable by the directors of Landsea Homes.

The audited financial information of Landsea Homes have been prepared under US GAAP while the audited financial information of the Company have been prepared under HKFRS. The Company noted the following differences in accounting policies between the audited financial information of Landsea Homes prepared under US GAAP and that of the Company prepared under HKFRS:

Landsea Homes Corporation
Debit/(Credit)
(dollars in thousands, except per share amounts)

Capitalization of Interest	**31 December 2021**			**31 December 2020**		
Balance sheet items	**US GAAP**	**adj**	**HKFRS**	**US GAAP**	**adj**	**HKFRS**
Investment in and advances to unconsolidated joint venture	470	(61)	409	21,342	(1,168)	20,174
Deferred tax assets	7,270	17	7,287	13,248	326	13,574
Retained earnings	(84,797)	842	(83,955)	(32,011)	1,926	(30,085)
Income statement items						
Equity in net (income) loss	(1,262)	(1,114)	(2,376)	16,418	(1,505)	14,913
Provision (benefit) for income taxes	13,995	316	14,311	(3,081)	421	(2,660)
Subtotal		(798)			(1,084)	

Note: for 2021, the total adjustment amount on income statement under HKFRS was an increase of after-tax income of US$798,000; for 2020, the amount was an increase of after-tax income of US$1,084,000.

Public Warrant	**31 December 2021**			**31 December 2020**		
Balance sheet items	**US GAAP**	**adj**	**HKFRS**	**US GAAP**	**adj**	**HKFRS**
Warrant liability	(9,185)	(2,348)	(11,533)	—	—	—
Additional paid-in capital	(535,345)	3,259	(532,086)	—	—	—
Income statement items						
Gain on remeasurement of warrant liability	(2,090)	(911)	(3,001)	—	—	—

Note: for 2021, the total adjustment amount on income statement under HKFRS was an increase of after-tax income of US$911,000.

a. Capitalization of interest

Under the US GAAP, interest borne by Landsea Homes for a joint venture ("**JV**") can be capitalized. Such practice would increase the cost of investment in the JV on the financial statements of Landsea Homes under US GAAP, as compared to financial statements prepared under HKFRS. This practice is not allowed under HKFRS. Therefore, such capitalization of interest should be reversed in the financial statements prepared under HKFRS, which would produce a lower cost of investment in JV. When the inventories of the JV are sold, the lower cost of investment in JV under HKFRS would result in a higher investment income derived from the JV on the financial statements of Landsea Homes prepared under HKFRS, as compared to that prepared under US GAAP.

For the year ended 31 December 2021, the adjustment mentioned above resulted in a recognition of an additional investment income before tax in the JV of RMB7.22 million attributable to Landsea Homes (as compared with that under US GAAP), which in turn resulted in a recognition of additional profits before tax of RMB7.22 million, and additional profits after tax of RMB5.2 million (as compared with that under US GAAP). The additional profits before tax and after tax accounted for approximately 1.7% and 1.2%, respectively, of the total profits before tax and after tax of Landsea Homes.

For the year ended 31 December 2020, the adjustment resulted in a recognition of an additional investment income before tax in the JV by RMB9.82 million attributable to Landsea Homes (as compared with that under US GAAP), which in turn resulted in a recognition of additional profits before tax of RMB9.82 million and additional profits after tax of RMB7.07 million (as compared with that under US GAAP). Landsea Homes recorded a loss in 2020.

b. Public warrants

Public warrants issued by Landsea Homes were recognized as equity under US GAAP and as liability under HKFRS. Under HKFRS, fair value adjustment at each of the financial period are required to be recognized as profit or loss for the period.

For the year ended 31 December 2021, due to the recognition of the gains on changes in the fair value, an additional USD911,000 was recognized as profits under HKFRS. Since public warrants were issued after the listing of Landsea Homes on NASDAQ in January 2021, such adjustment did not exist in 2020.

Other than the differences mentioned above, the Company is not aware of any material difference between US GAAP and HKFRS in relation to the presentation of audited financial information on Landsea Homes.

The Company

The Company is an investment holding company. The Group is principally engaged in development and sales of properties.

LHC

LHC was incorporated in the State of Delaware, and is principally engaged in investment holding. It is indirectly wholly-owned by the Company.

The Lender

The Lender was a company incorporated in British Columbia in Canada, and is principally engaged in investment. The Lender is wholly owned by Mr. Huaijun Chen, a PRC citizen. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Lender and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

Landsea Group

Landsea Group was established under the laws of the PRC, and is principally engaged in property development. Landsea Group is owned as to 34.15% by Nanjing Ding Chong Investment Management Consultants Ltd., a company wholly and beneficially owned by Mr. Tian Ming, an executive Director, and as to 15.85% by Mr. Tian Ming. Mr. Tian Ming is regarded as the controlling shareholder of Landsea Group. As at the Latest Practicable Date, Landsea Group, being a controlling Shareholder, held 2,379,428,081 Shares through Landsea International, representing approximately 50.39% of the issued share capital of the Company.

Landsea International

Landsea International was incorporated in Hong Kong, and is principally engaged in investment holding. It is directly wholly-owned by Landsea Group. As at the Latest Practicable Date, Landsea International, being a controlling Shareholder, held 367,914,894 Shares directly and 2,011,513,187 Shares through Greensheid, representing approximately 50.39% of the issued share capital of the Company.

The Purchaser

The Purchaser was a company incorporated in the British Virgin Islands with limited liability, and is principally engaged in investment. The Purchaser is wholly owned by Mr. Bao Xuefeng. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Lender and the Purchaser, and each of their respective ultimate beneficial owners, is a third party independent of the Company and connected persons of the Company.

5. IMPLICATIONS UNDER THE LISTING RULES

a. Credit Agreement and the Potential Disposal

As the exercise of the Lender Stock Payment Election Right by the Lender for the LSEA Stock is subject to the extension of the Facility Termination Date which is at the discretion of the Borrower pursuant to the Credit Agreement, pursuant to Rule 14.75 of the Listing Rules, it is an option the exercise of which is at the Company's discretion, only the premium (which is nil) will be taken into consideration for the purpose of classification of notifiable transactions. Pursuant to Rule 14.76(2), the Company may, at the time of entering into an option, seek any shareholders' approval necessary for the exercise of the option.

When an event of default occurs, the Lender may elect by providing written notice to LHC to require all or any portion specified by the Lender of the outstanding principal of the Loan be immediately repayable with LSEA Stock at US$6.00 per share of LSEA Stock, together with the balance of the remaining outstanding principal and all accrued interest be payable in cash. As the Lender's election following the occurrence of an event of default is at the discretion of the Lender, pursuant to Rule 14.74(1) of the Listing Rules, it is an option the exercise of which is not at the Company's discretion, the transaction will be classified as if the option had been exercised. Therefore, 4,838,710 shares of LSEA Stock will be treated as if they have been disposed of by LHC.

As the highest applicable percentage ratio in respect of the potential disposal of 4,838,710 shares of LSEA Stock contemplated under the Credit Agreement (as calculated under Rule 14.07 of the Listing Rules) is 25% or more and all other applicable percentage ratios are below 75%, the entering into the Credit Agreement constitutes a major transaction for the Company subject the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

b. Disposal and the Put Right

As the Put Right is exercisable at the discretion of the Purchaser, pursuant to Rule 14.74(1) of the Listing Rules, the grant of the Put Right in the Put Option Agreement will be classified as if it had been exercised. Therefore, 4,838,710 shares of LSEA Stock will be treated as if they have been purchased by LHC.

As the highest applicable percentage ratio in respect of the Disposal (as calculated under Rule 14.07 of the Listing Rules) is 25% or more but is less than 75% and the highest applicable percentage ratio in respect of the Put Right (as calculated under Rule 14.07 of the Listing Rules) is 25% or more but is less than 100%, each of the Disposal and the Put Right constitutes a major transaction for the Company subject the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

6. WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER RULE 14.67(6)(A)(I) AND RULE 14.67(6)(A)(II) OF THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company would be required to include in this circular an accountants' report on Landsea Homes in accordance with Chapter 4 of the Listing Rules and prepare using accounting policies which should be materially consistent with those of the Company pursuant to Rule 14.67(6)(a)(i) of the Listing Rules.

In addition, under Rule 14.67(6)(a)(ii) of the Listing Rules, the Company would be required to include in the Circular a pro forma statement of the assets and liabilities of the Group after completion of the acquisition of the Put Shares. Such pro forma financial information must comply with Chapter 4 of the Listing Rules.

The Company applied for a wavier from strict compliance with the requirement of Rule 14.67(6)(a)(i) and (ii) based on the following grounds:

(i) Landsea Homes is an indirect non-wholly owned subsidiary of the Company and will continue to be its indirect non-wholly owned subsidiary upon completion of the Disposal and the exercise of the Put Right. The consolidated financial statements of the Group for the year ended 31 December 2021 have consolidated the financial information of Landsea Homes as a subsidiary of the Company. The audited consolidated financial statements of the Group for the year ended 31 December 2021 which gives a true and fair view of the Group (including Landsea Homes) has already been available to the Shareholders and the investing public since 31 March 2022;

(ii) Landsea Homes is a company listed on NASDAQ, and it publishes its financial information on a regular basis pursuant to applicable laws and regulations. Such financial information can be easily obtained by the Shareholders and will enable them and the investing public to make a properly informed assessment of Landsea Homes' historical financial performance;

(iii) Landsea Homes' financial statements are prepared in accordance with US GAAP and the Company's financial statements are prepared in accordance with HKFRS. Given that Landsea Homes and the Company have adopted different financial reporting standards, it is unduly burdensome for the Company to engage internal and external resources to prepare an accountants' report on Landsea Homes as required under Rule 14.67(6)(a)(i) of the Listing Rules in light of the substantial time and costs required; and

(iv) the Put Right is only exercisable from 1 March 2023 and may or may not be exercised. If the Company were to prepare the pro forma financial information as required under Rule 14.67(6)(a)(ii) of the Listing Rules, since the LSEA Stock subject to the Put Right is currently held by the Company, the pro forma financial information would not give more information than the information in the Company's audited financial statement as at 31 December 2021.

For the above reasons and given the fact that the historical financial information of the Group which includes the financial information of Landsea Homes is already available in the published results announcement and annual report of the Group, it would not be cost effective and time consuming to prepare separate audited financial statements of Landsea Homes in accordance with HKFRS and pro forma financial information as required under Rules 14.67(a)(i) and (ii) of the Listing Rules.

In replacement of an accountants' report on Landsea Homes, the following disclosure has been included in this circular:

(i) the published audited financial information on Landsea Homes for the years ended 31 December 2019, 2020 and 2021 which includes the comparative financial information in respect of the previous period prepared in accordance with US GAAP; and

(ii) the management discussion and analysis of the financial information of Landsea Homes as set forth in paragraph (i) above.

Based on the above, the Stock Exchange granted a waiver from strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(6)(a)(ii) of the Listing Rules such that the Company is not required to include an accountants' report on Landsea Homes and the pro forma financial information of the Group after completion of the acquisition of the Put Shares in this circular.

7. WRITTEN SHAREHOLDER'S APPROVAL

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in (1) the Credit Agreement and the transactions contemplated thereunder; and (2) the Disposal and the Put Right. As such, no Shareholder is required to abstain from voting if a general meeting were convened to approve (1) the Credit Agreement and the transactions contemplated thereunder; and (2) the Disposal and the Put Right. As at the Latest Practicable Date, each of Mr. Tian Ming, Greensheid, Landsea International and Easycorps held 8,901,500 Shares, 2,011,513,187 Shares,

367,914,894 Shares and 376,017,785 Shares respectively, together representing approximately 58.53% interests of the Company giving the right to attend and vote at general meetings of the Company, for (1) the Credit Agreement and the transactions contemplated thereunder; and (2) the Disposal and the Put Right, in accordance with Rule 14.44 of the Listing Rules.

Pursuant to Rule 14.44(2) of the Listing Rules, the written Shareholders' approval from Mr. Tian Ming, Greensheid, Landsea International and Easycorps has been accepted in lieu of holding a general meeting of the Company. Accordingly, no general meeting of the Company shall be convened to approve (1) the Credit Agreement and the transactions contemplated thereunder; and (2) the Disposal and the Put Right.

If the Company were to convene a general meeting for the approval of (1) the Credit Agreement and the transactions contemplated thereunder; and (2) the Disposal and the Put Right, the Acquisition and voting was required, the Directors would have recommended the Shareholders to vote in favour of such resolution based on the reasons set out in this letter.

GENERAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board of
Landsea Green Properties Co., Ltd.
Tian Ming
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 were set out in the relevant annual reports of the Company posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.landsea.hk/html/ir_report.php). Please also see below quick links to the relevant annual reports:

- Annual report of the Company for the year ended 31 December 2021 published on 27 April 2022 (pages 125 to 130):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700780.pdf

- Annual report of the Company for the year ended 31 December 2020 published on 29 April 2021 (pages 140 to 325):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042900843.pdf

- Annual report of the Company for the year ended 31 December 2019 published on 24 April 2020 (pages 145 to 361):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042401699.pdf

Each of the said consolidated financial statements of the Group is incorporated by reference to this circular and forms part of this circular.

2. STATEMENT OF INDEBTEDNESS

As at 30 June 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding indebtedness of approximately RMB9,260.88 million, consisting of current borrowings of approximately RMB3,312.48 million, non-current borrowings of approximately RMB5,834.34 million, public warrants of approximately RMB23.29 million and lease liabilities of approximately RMB90.77 million.

As at 30 June 2022, the Group had cooperated with various financial institutions to arrange mortgaged loan facilities for the purchasers of its properties and provided guarantees to secure such purchasers' obligation of repayments. The outstanding mortgage loans under these guarantees amounted to approximately RMB1,307.92 million. Such guarantees will be released by banks upon earlier of the issuance of the real estate ownership certificate and the satisfaction of relevant mortgaged loan. In addition, the Group provided guarantees for bank loans with the amount of RMB102.40 million for one joint venture of the Group as of 30 June 2022.

Save as otherwise disclosed above, and apart from intra-group liabilities and normal trade payables, the Group did not have, at the close of business on 30 June 2022, any other debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources including the internally generated fund and the loan facilities available to the Group as well as the effect of the transactions contemplated under the Credit Agreement, the Stock Purchase Agreement and the Put Option Agreement, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

Over the years, the Company has been exploring the path of transforming from a traditional asset-heavy residential development model to an asset-light model. The Company not only wish to become a branded service provider with light-asset operation capability, but also wish its investment capability to be of a certain level, such that its revenue stream could be diversified through quality partner projects with minority interests.

The Company positions itself as a service provider of green development and also a "real estate investment bank + green builder". It is fortunate to be a pioneer in exploring diversified development of market, and has much experience in fields such as green building and renovation for the existing buildings.

Since 2014, the Company has been realizing its strategic transformation to product differentiation, asset-light transformation and revenue diversification, and 2022 is a decisive year for completing the transformation. Meanwhile, the Company has decided to change its name to "Landsea Green Management Limited" (朗詩綠色管理有限公司) to more accurately reflect the strategic positioning of becoming a green development service provider and allow itself to be differentiated from the typical "domestic real estate stock". Adhering to the original dream of green, low-carbon and sustainable development, the Company will move into a new stage of industry development with a new face after streamlining.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The following is an extract of the audited financial statements of PricewaterhouseCoopers LLP for the year ended 31 December 2021, which were prepared in accordance with U.S. GAAP, from the 2021 Annual Report on Form 10-K of Landsea Homes Corporation issued on 16 March 2022.

The 2021 Annual Report on Form 10-K have been published on the website of Nasdaq (www.nasdaq.com) and can be accessed at the website address below:

https://app.quotemedia.com/data/downloadFiling?webmasterId=90423&ref=116558335&type=PDF&symbol=LSEA&companyName=Landsea+Homes+Corporation&formType=10-K&formDescription=Annual+report+pursuant+to+Section+13+or+15%28d%29&dateFiled=2022-03-16&CK=1721386

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of Landsea Homes' financial condition and results of operations for the fiscal years ended December 31, 2021, 2020 and 2019 should be read together with the consolidated financial statements and related notes of Landsea Homes' that are included elsewhere in this document.

This section generally discusses the results of operations for 2021 compared to 2020. For similar discussion of our 2020 results compared year over year to our 2019 results, refer to Exhibit 99.2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended December 31, 2020 incorporated by reference to our current report on Form 8-K/A filed on March 12, 2021.

Statements regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are based upon our current expectations and involve numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included in our Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements.

Consolidated Financial Data

The following table summarizes the results of operations for the years ended December 31, 2021, 2020, and 2019.

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands, except per share amounts)		
Revenue			
Home sales	$ 936,400	$ 734,608	$ 568,872
Lot sales and other	86,904	—	62,116
Total revenue	1,023,304	734,608	630,988
Cost of sales			
Home sales	772,575	636,324	478,054
Inventory impairments	—	3,413	—
Lot sales and other	68,131	—	53,475
Total cost of sales	840,706	639,737	531,529
Gross margin			
Home sales	163,825	94,871	90,818
Lot sales and other	18,773	—	8,641
Total gross margin	182,598	94,871	99,459
Sales and marketing expenses	52,840	48,100	26,522
General and administrative expenses	70,266	42,598	34,884
Total operating expenses	123,106	90,698	61,406
Income from operations	59,492	4,173	38,053
Other income (expense), net	3,886	80	(1,602)
Equity in net income (loss)	1,262	(16,418)	(7,901)
Gain on remeasurement of warrant liability	2,090	—	—
Pretax income (loss)	66,730	(12,165)	28,550
Provision (benefit) for income taxes	13,995	(3,081)	6,159
Net income (loss)	52,735	(9,084)	22,391
Net (loss) income attributable to noncontrolling interests	(51)	(133)	5,191
Net income (loss) attributable to Landsea Homes Corporation	$ 52,786	$ (8,951)	$ 17,200
Earnings (loss) per share:			
Basic	$ 1.14	$ (0.27)	$ 0.53
Diluted	$ 1.14	$ (0.27)	$ 0.53
Weighted average shares outstanding:			
Basic	45,198,722	32,557,303	32,557,303
Diluted	45,250,718	32,557,303	32,557,303

Business Overview

Driven by a commitment to sustainability, Landsea Homes Corporation ("LHC") designs and builds homes and communities in Arizona, California, Florida, Texas, and the Metro New York area. We create inspired spaces for modern living and feature homes and communities in vibrant, prime locations which connect seamlessly with their surroundings and enhance the local lifestyle for living, working, and playing. The defining principle, "Live in Your Element®," creates the foundation for our customers to live where they want to live, how they want to live – in a home created especially for them.

The Company's operations are engaged in the acquisition, development, and sale of homes and lots in the states of Arizona, California, Florida, New Jersey, New York, and Texas. The Company's operations are organized into five reportable segments: Arizona, California, Florida, Metro New York, and Texas. The Company builds and sells an extensive range of home types across a variety of price points but focus our efforts on the first-time homebuyer. Our Corporate operations are a non-operating segment to support our homebuilding operations by providing executive, finance, treasury, human resources, accounting and legal services.

On January 18, 2022, we acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder for an aggregate cash purchase price of $179.2 million. The Hanover acquisition increases our presence in Florida with backlog of approximately 520 units valued at approximately $228 million as of the acquisition date.

The impacts of the COVID-19 pandemic and the related restrictions across the United States began to impact our business at the end of the first quarter of 2020. This impacted our construction phases and our ability to complete the legal and regulatory steps to close homes. As restrictions related to COVID-19 eased, our ability to progress with home construction and related deliveries improved significantly during the remainder of 2020 and remained strong throughout 2021. With the lifting of restrictions we also saw significant increases in demand across our markets. We believe the increase in demand has been fueled by historically low interest rates on mortgage loans and a general tightening supply of homes for sale. These macroeconomic effects have allowed us to increase prices and derive additional revenue from our home deliveries; however we frequently see those increased revenues partially offset by higher costs associated with labor and supply shortages. In certain markets we have seen our construction cycle lengthen primarily due to supply chain constraints and in those markets we have slowed our home sales pace to more closely align with our production level. Based on the current availability of labor and materials, the stage of completion of our current homes in inventory, and production schedules, we expect to continue restricting the pace of our sales orders in some of our communities in the near term.

Strategy

The Company's strategy is focused on maximizing shareholder returns through profitability and efficiency, while balancing appropriate amounts of leverage. In general, we are focused on the following long-term strategic objectives:

- Expand community count in current markets and enhance operating returns
- Maintain an appropriate supply of lots
- Continue to focus on entry-level product offerings
- Strengthen unique brand position through product differentiation
- Continue geographic expansion and diversification into new markets
- Leverage existing SG&A base to enhance stockholder returns and profitability
- Become a top-ten homebuilder in the United States

Non-GAAP Financial Measures

Non-GAAP financial measures are defined as numerical measures of a company's performance that exclude or include amounts so as to be different than the most comparable measures calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). The presentation of non-GAAP

financial measures should not be considered in isolation or as a substitute for the Company's related financial results prepared in accordance with GAAP.

We present non-GAAP financial measures of adjusted home sales gross margin, net debt to net capital, EBITDA and adjusted EBITDA, and adjusted net income in their respective sections below to enhance an investor's evaluation of the ongoing operating results and to facilitate meaningful comparison of the results between periods. Management uses these non-GAAP measures to evaluate the ongoing operations and for internal planning and forecasting.

Results of Operations

During 2021, we continued our strategy of shifting our inventory and product to more affordable price points. In May 2021, we completed our homebuilder acquisition in the Florida and Texas markets by purchasing 100% of the membership interests of Vintage Estate Homes ("Vintage"). This acquisition expanded our business into Florida and Texas with an inventory of approximately 1,800 lots, in various stage of development. The combination of our investments in the Florida and Texas markets and strong activity in the existing California and Arizona markets during 2021 resulted in a 27% year-over-year increase in home sales revenue and a 7% increase in homes delivered from 1,527 units in 2020 to 1,640 units in 2021. The larger increase in home sales revenue as compared to home deliveries reflects the increasing price appreciation in each of our markets along with the strong performance of our California market which typically has a higher average selling price ("ASP") than the other markets we operate in.

We remain focused on growth and view our leverageaccess to capital markets and the generation of free cash flow form operations as a key factor in allowing us to expand. Even as the Company has grown organically and through business acquisitions in recent years, we remain in a position to act on our strategy and to be opportunistic about acquisitions and other growth opportunities. Our debt to capital ratio increased to 42.6% as of December 31, 2021 compared to 33.3% as of December 31, 2020, and our cash and cash equivalents increased to $342.8 million as of December 31, 2021 compared to $105.8 million as of December 31, 2020. We believe the combination of cash and modest leverage levels of our balance sheet position us well to continue to execute our growth strategy.

We anticipate the homebuilding markets in each of our operating segments to be tied to both the local economy and the macroeconomic environment. Accordingly, net orders, home deliveries, and ASPs in future years could be negatively affected by economic conditions, such as decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Shortages in labor or materials could also significantly increase costs, reduce gross margins, and lower our overall profitability. During 2021 we experienced increases in our production cycle times due to labor and material shortages that have caused us to reduce our absorption rate in certain markets, primarily in our Arizona segment. Additionally, the results could be impacted by a decrease in home affordability as a result of price appreciation, increases in mortgage interest rates, or tightening of mortgage lending standards.

Net New Home Orders, Dollar Value of Orders, and Monthly Absorption Rates

Changes in the dollar value of net new orders are impacted by changes in the number of net new orders and the average selling price of those homes. Monthly Absorption Rate is calculated as total net new orders per period, divided by the average active communities during the period, divided by the number of months per period.

	Year Ended December 31,											
	2021				2020				% Change			
	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate
	(dollars in thousands)											
Arizona	685	$ 284,474	$ 415	4.5	1,283	$ 402,338	$ 314	5.7	(47)%	(29)%	32 %	(21)%
California	631	563,922	894	4.6	608	566,078	931	4.4	4 %	— %	(4 %)	5 %
Florida [1]	138	65,046	471	1.9	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Metro New York	25	50,687	2,027	3.0	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Texas [1][2]	(8)	(692)	N/A	(0.5)	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Total	1,471	$ 963,437	$ 655	3.8	1,891	$ 968,416	$ 512	5.2	(22)%	(1)%	28 %	(27)%

(1) Monthly Absorption Rate for Florida and Texas in 2021 is based on eight months for the time subsequent to the acquisition of Vintage Estate Homes in May 2021.

(2) The ASP calculation for our Texas segment is not a meaningful disclosure as presented above due to cancellations and renegotiation of contract terms during the period presented. Our seven new sales contracts during the period from acquisition to December 31, 2021 had an ASP of $1,121 thousand.

	Year Ended December 31,											
	2020				2019				% Change			
	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate
	(dollars in thousands)											
Arizona [1]	1,283	$ 402,338	$ 314	5.7	104	$ 31,192	$ 300	2.6	1134 %	1190 %	5 %	119 %
California	608	566,078	931	4.4	376	430,133	1,144	2.7	62 %	32 %	(19)%	63 %
Florida	—	—	N/A	N/A	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Metro New York	—	—	N/A	N/A	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Texas	—	—	N/A	N/A	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Total	1,891	$ 968,416	$ 512	5.2	480	$ 461,325	$ 961	2.7	294 %	110 %	(47)%	93 %

1) Monthly Absorption Rate for Arizona in 2019 is based on seven months for the time subsequent to the acquisition of Pinnacle West in June 2019.

Net new home orders decreased in 2021 due to a decrease in Arizona orders, partially offset by an increase in California home sales and the start of sales in Florida and Metro New York.

The decrease in Arizona is primarily due to intentional delays in our sales process. We are experiencing constraints in our production processes due to labor and material shortages for homes currently under construction and that has extended our production cycle. We expect such delays are likely to continue in the short-term. The year-over-year change in dollar value of net new home orders in Arizona is less impacted due to a 32% increase in ASP during the year ended December 31, 2021. This is primarily due to price appreciation in the Arizona market and a larger number of homes in communities with higher-end products.

For the year-ended December 31, 2021, the increase in net new orders in California was primarily due to a slight increase in the monthly absorption rate, which was driven by entry-level communities with a lower ASP that sold at a much faster pace.

Our new Florida segment, beginning from the acquisition of Vintage, has provided steady orders with a slightly increasing ASP over the year, beginning in May 2021. We continue to purchase more lots in Florida to support and

grow our operations there and our acquisition of Hanover on January 18, 2022 significantly adds to our Florida segment.

The Metro New York segment has not yet delivered any homes, other than those through unconsolidated joint ventures. The units within this segment remain in various stages of construction and opened for sale in 2021. The total increase in ASP for net orders is largely due to the high dollar value of the units in our Metro New York segment.

Our Texas segment had eight net cancellations due to pre-acquisition sales contracts that did not reflect current costs. Throughout the year, pre-acquisition contracts continued to be renegotiated or cancelled and the associated homes resold, increasing the sales dollar value of new sales and the ASP of homes in backlog.

Average Selling Communities

Average selling communities is the sum of communities actively selling each month, divided by the total months in the calculation period.

	Year Ended December 31,				
	2021	% Change	2020	% Change	2019
Arizona (1)	12.6	(33)%	18.8	230 %	5.7
California	11.4	(2)%	11.6	(2)%	11.8
Florida (1)	9.0	N/A	—	N/A	—
Metro New York	0.7	N/A	—	N/A	—
Texas (1)	2.0	N/A	—	N/A	—
Total	32.0	5 %	30.4	74 %	17.5

(1) Average selling communities calculations for Florida and Texas in 2021 are based on eight months, for the time subsequent to the acquisition of Vintage in May 2021. Average selling communities calculations for Arizona in 2019 are based on seven months, for the time subsequent to the acquisition of Pinnacle West in June 2019.

Home Deliveries and Home Sales Revenue

Changes in home sales revenue are the result of changes in the number of homes delivered and the ASP of those delivered homes. Commentary on significant changes for each of the segments in these metrics is provided below.

	Year Ended December 31,								
	2021			2020			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	771	$ 276,174	$ 358	1,104	$ 320,691	$ 290	(30)%	(14)%	23 %
California	617	553,957	898	423	413,917	979	46 %	34 %	(8)%
Florida	232	87,991	379	—	—	N/A	N/A	N/A	N/A
Metro New York	—	—	N/A	—	—	N/A	N/A	N/A	N/A
Texas	20	18,278	914	—	—	N/A	N/A	N/A	N/A
Total	1,640	$ 936,400	$ 571	1,527	$ 734,608	$ 481	7 %	27 %	19 %

	Year Ended December 31,								
	2020			2019			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	1,104	$ 320,691	$ 290	133	$ 40,024	$ 301	730 %	701 %	(4)%
California	423	413,917	979	464	528,848	1,140	(9)%	(22)%	(14)%
Florida	—	—	N/A	—	—	N/A	N/A	N/A	N/A
Metro New York	—	—	N/A	—	—	N/A	N/A	N/A	N/A
Texas	—	—	N/A	—	—	N/A	N/A	N/A	N/A
Total	1,527	$ 734,608	$ 481	597	$ 568,872	$ 953	156 %	29 %	(50)%

During 2021, the Arizona segment delivered 771 homes with an ASP of $0.4 million and generated $276.2 million in home sales revenue. The decrease in home closings and home sales revenue compared to the same periods in 2020 was primarily attributable to production delays partially offset by an increase in ASP of 23% for the year ended December 31, 2021 compared to 2020. The increase was primarily due to price appreciation in the Arizona market and a larger number of homes delivered in communities with higher-end products.

For the year ended December 31, 2021, the year-over-year increase in home sales revenue and deliveries in the California segment of 34% and 46%, respectively, was the result of strengthening market conditions, including strong demand and rising prices in the current period. The decrease in ASP was the result of a change in mix of homes delivered during the period, which included more homes with a lower price point compared to the same period in 2020. The comparison also benefits from the 2020 deliveries being lower due to more restrictive COVID related requirements in parts of California that we operate in. However, comparing to 2019, the segment has shown strong growth during the past two years in both home sales revenue and deliveries as we strategically shift to building homes with a more attainable price point.

As noted above, Florida operations began in May 2021 with the acquisition of Vintage. The segment has provided steady home sales revenue and deliveries over the year with a slightly increasing ASP over the year. We continue to purchase more lots in Florida to support the growth opportunities we see there.

The Metro New York segment has not yet delivered any homes, other than those through unconsolidated joint ventures. Therefore, there are no consolidated home sale revenues or deliveries for the years presented.

As noted above, Texas operations began in May 2021 with the acquisition of Vintage. The homes sales revenue, deliveries, and ASP have grown over the year as we have begun to deliver more homes after renegotiating the associated contracts obtained at acquisition.

Home Sales Gross Margins

Home sales gross margin measures the price achieved on delivered homes compared to the costs needed to build the home. In the following table, we calculate gross margins adjusting for interest in cost of sales, inventory impairments (if applicable), and purchase price accounting for acquired work in process inventory (if applicable). We believe the below information is meaningful as it isolates the impact that indebtedness, impairments, and acquisitions have on our gross margins and allows for comparability to previous periods and competitors. See *Note 2 - Summary of Significant Accounting Policies* and *Note 3 - Business Combinations* within the accompanying notes to the consolidated financial statements for additional discussion regarding acquired work in process inventory.

	Year Ended December 31,					
	2021	%	2020	%	2019	%
	(dollars in thousands)					
Home sales revenue	$ 936,400	100.0 %	$ 734,608	100.0 %	$ 568,872	100.0 %
Cost of home sales	772,575	82.5 %	639,737	87.1 %	478,054	84.0 %
Home sales gross margin	163,825	17.5 %	94,871	12.9 %	90,818	16.0 %
Add: Interest in cost of home sales	33,328	3.6 %	37,926	5.2 %	40,262	7.1 %
Add: Inventory impairments	—	— %	3,413	0.5 %	—	— %
Adjusted home sales gross margin excluding interest and inventory impairments [(1)]	197,153	21.1 %	136,210	18.5 %	131,080	23.0 %
Add: Purchase price accounting for acquired inventory	14,588	1.6 %	15,519	2.1 %	2,874	0.5 %
Adjusted home sales gross margin excluding interest, inventory impairments, and purchase price accounting for acquired inventory [(1)]	$ 211,741	22.6 %	$ 151,729	20.7 %	$ 133,954	23.5 %

(1) This non-GAAP financial measure should not be used as a substitute for the Company's operating results in accordance with GAAP. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. We believe this non-GAAP measure is meaningful because it provides insight into the impact that financing arrangements and acquisitions have on our homebuilding gross margin and allows for comparability of our gross margins to competitors that present similar information.

Home sales gross margin increased from 12.9% for the year ended December 31, 2020 to 17.5% for the year ended December 31, 2021 primarily due to home sales price appreciation amid high product demand in our Arizona and California segments, partially offset by increasing material and labor costs. Additionally, an impairment charge of $3.4 million was recorded during the year ended December 31, 2020. Purchase price accounting for acquired inventory is a result of the recent business combinations.

Adjusted home sales gross margin excluding interest, inventory impairments, and purchase price accounting for acquired inventory increased from 20.7% for the year ended December 31, 2020 to 22.6% for the year ended December 31, 2021 due to home sales price appreciation. The change also reflects a decrease in interest costs due to lowering interest rates over recent years, partially offset by increasing material and labor costs.

Backlog

Backlog reflects the number of homes, net of cancellations, for which we have entered into a sales contract with a customer but have not yet delivered the home.

	December 31, 2021			December 31, 2020			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
				(dollars in thousands)					
Arizona	422	$ 181,232	$ 429	508	$ 172,932	$ 340	(17)%	5 %	26 %
California	256	226,376	884	242	216,410	894	6 %	5 %	(1)%
Florida [1]	283	115,538	408	—	—	N/A	N/A	N/A	N/A
Metro New York	25	50,687	2,027	—	—	N/A	N/A	N/A	N/A
Texas [2]	12	12,348	1,029	—	—	N/A	N/A	N/A	N/A
Total	998	$ 586,181	$ 587	750	$ 389,342	$ 519	33 %	51 %	13 %

(1) Backlog acquired in Florida at the date of the Vintage acquisition was 377 homes with a value of $138,483 thousand.
(2) Backlog acquired in Texas at the date of the Vintage acquisition was 40 homes with a value of $31,318 thousand.

The increase in the number of backlog homes and the backlog value as of December 31, 2021 as compared to December 31, 2020 is primarily attributable to a greater number of home sales in the Florida and Texas segments following the acquisition of Vintage as well as the new sales in Metro New York at a significantly higher price point than the rest of our segments.

Subsequent to year-end, our backlog increased by approximately 520 homes valued at approximately $228 million as a result of the Hanover acquisition on January 18, 2022.

Lot Sales and Other Revenue

Lot sales and other revenue and gross margin can vary significantly between reporting periods based on the number of lots under contract and the percentage of completion related to the development activities required as part of the lot sales and other contracts. For the years ended December 31, 2021 and 2019, we recognized $86.9 million and $62.1 million in lot sales and other revenue, respectively. We did not have any lot sales or other revenue for the year ended December 31, 2020.

As of December 31, 2021, the Company had $4.0 million deferred revenue from lot sales and other revenue. The Company recognizes these amounts as development progresses and the related performance obligations are completed. As of December 31, 2021, the Company had contract assets of $6.1 million from lot sales and other contracts. The contract asset balance represents cash to be received for work already performed on lot sale and other contracts. The amount of the transaction price for lot sales and other contracts allocated to performance obligations that were unsatisfied, or partially unsatisfied, as of December 31, 2021 was $63.9 million. As of December 31, 2020, the Company had no deferred revenue or contract assets. There was no outstanding amount related to unsatisfied performance obligations as of December 31, 2020.

Lots Owned or Controlled

The table below summarizes lots owned or controlled by reportable segment as of the dates presented. Lots controlled includes lots where we have placed a deposit and have a signed purchase contract or rolling option contract.

	December 31, 2021			December 31, 2020			
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	% Change
Arizona	3,274	1,124	4,398	3,094	1,770	4,864	(10)%
California	813	1,093	1,906	1,104	662	1,766	8 %
Florida	966	457	1,423	—	—	—	N/A
Metro New York	50	—	50	50	—	50	— %
Texas	45	918	963	—	—	—	N/A
Total	5,148	3,592	8,740	4,248	2,432	6,680	31 %

The total lots owned and controlled at December 31, 2021 were up 31% from December 31, 2020, primarily due to the acquisition of Vintage, which added approximately 1,800 lots owned and controlled, as well as recent land acquisitions and option contracts in California and Texas.

Subsequent to year-end, our lots owned and controlled increased by approximately 3,800 as a result of the Hanover acquisition on January 18, 2022.

Results of Operations and Assets by Segment

	Year Ended December 31,		
	2021	2020	2019
Pretax income (loss)	*(dollars in thousands)*		
Arizona	$ 25,681	$ 9,325	$ (3,927)
California	61,073	10,131	53,019
Florida	(492)	—	—
Metro New York	(2,154)	(19,764)	(13,225)
Texas	(439)	—	—
Corporate	(16,939)	(11,857)	(7,317)
Total	$ 66,730	$ (12,165)	$ 28,550

	December 31,	
	2021	2020
Assets	*(dollars in thousands)*	
Arizona	$ 360,598	$ 268,141
California	400,292	409,705
Florida	102,158	—
Metro New York	124,962	120,168
Texas	35,984	—
Corporate	241,520	97,750
Total	$ 1,265,514	$ 895,764

Our Arizona segment recorded pretax income of $25.7 million during the year ended December 31, 2021 compared to $9.3 million during the year ended December 31, 2020. The increase in pretax income in 2021 is primarily due to an increase in gross margins stemming from high demand which has allowed us to increase pricing.

Our California segment recorded pretax income of $61.1 million during the year ended December 31, 2021 compared to $10.1 million during the year ended December 31, 2020. The increase was partially due to increasing demand in the current periods. This allowed us to increase pricing, which resulted in an increase in gross margins,

even with a shift in product mix that lowered our overall ASP in California. The California segment results for the year ended December 31, 2020 were impacted by COVID-19 related restrictions and delays. Additionally, the California segment recorded real estate inventory impairments of $3.4 million during the year ended December 31, 2020. Total assets in California decreased slightly as we reduce our concentration within and dependence upon the California market.

As noted above, Florida operations began in May 2021 with the acquisition of Vintage. The segment has operated near breakeven as we have integrated the new acquisition to align with our business model and operations. We have seen steady home sales revenue and deliveries over the year with a slightly increasing ASP over the year. We continue to purchase more lots in Florida to support the growth opportunities we see there.

The Metro New York segment experienced a decrease in pretax loss during the year ended December 31, 2021 as compared to the same prior periods, due to smaller losses from the unconsolidated joint venture at the LS-NJ Port Imperial JV LLC ("Avora") project. This was primarily due to strengthening market conditions in the current periods while the prior periods were impacted by COVID-19 related delays and pricing pressure. Avora recorded an impairment charge of $27.1 million resulting in a $13.8 million loss on unconsolidated joint venture during the year ended December 31, 2020.

As noted above, Texas operations began in May 2021 with the acquisition of Vintage. The segment has operated near breakeven as we have integrated the new acquisition to align with our business model and operations. The homes sales revenue, deliveries, and ASP have grown over the year as we have begun to deliver more homes after renegotiating the associated contracts obtained at acquisition.

We have also identified our Corporate operations as a non-operating segment, as it serves to support the business's operations through functional departments such as executive, finance, treasury, human resources, accounting and legal. The majority of the corporate personnel and resources are primarily dedicated to activities relating to the business's operations and are allocated accordingly. During the year ended December 31, 2021, costs allocated to our Corporate non-operating segment increased significantly as compared to the year ended December 31, 2020. This included transaction costs related to the Merger, costs associated with the Vintage acquisition and other potential acquisitions, as well as other increased costs associated with being a publicly traded company.

Selling, General, and Administrative Expenses

	Year Ended December 31,			As a Percentage of Home Sales Revenue		
	2021	2020	2019	2021	2020	2019
	(dollars in thousands)					
Sales and marketing expenses	$ 52,840	$ 48,100	$ 26,522	5.6 %	6.5 %	4.7 %
General and administrative expenses	70,266	42,598	34,884	7.5 %	5.8 %	6.1 %
Total operating expenses	$ 123,106	$ 90,698	$ 61,406	13.1 %	12.3 %	10.8 %

During 2021, the selling, general, and administrative ("SG&A") expense rate, as a percentage of home sales revenue, was 13.1%, up from 12.3% during 2020. This total increase was partially offset by a decrease in sales and marketing expenses as a percentage of home sales revenue. This was a result of home prices rising faster than commissions due to an increase in sales that did not rely on a broker. The increase in general and administrative expenses was primarily due to (1) costs related to the acquisition of Vintage as well as potential future acquisitions, (2) costs associated with the Merger and continuing operations as a public company, and (3) an increase in compensation and personnel related expenses, including stock compensation expense, to support the growth and operations of the business as a public company.

Equity in Net Income (Loss) of Unconsolidated Joint Ventures

As of December 31, 2021, 2020, and 2019, we held membership interests in two unconsolidated joint ventures related to homebuilding activities, both of which are part of the Metro New York segment. As of December 31, 2021, one of the joint ventures, LS-NJ Port Imperial JV LLC ("Avora"), had active homebuilding activities with orders and deliveries, while the other, LS-Boston-Point LLC ("Boston Point"), was effectively closed out with only customary post-closing, warranty-related activities remaining.

Our share of joint venture income for the year ended December 31, 2021 was $1.3 million, compared to a loss of $16.4 million for the year ended December 31, 2020, and loss of $7.9 million for the year ended December 31, 2019. The income recognized was primarily the result of the significant number of homes delivered during the year. The Company's joint venture loss in 2020 and 2019 was due to impairment charges of $27.1 million and $5.8 million taken by the Avora joint venture in June 2020 and 2019, respectively. Based on the Company's ownership percentage of 51%, $13.8 million and $3.0 million of the impairment charges were included in the Company's consolidated statements of operations. The impairment charge in 2020 was primarily a result of slowing orders arising from restrictions and delays due to COVID-19. In both 2020 and 2019, the impairment charges were also due to increased competition from neighboring communities and weaker pricing than expected. As of December 31, 2021, the building held by the Avora joint venture is substantially closed out with only three homes remaining to sell and deliver.

The following sets forth supplemental operational and financial information about the unconsolidated joint ventures. Such information is not included directly in the financial statements, but is reflected in the results as a component of equity in net income (loss) of unconsolidated joint ventures. This data is included for informational purposes only.

	Year Ended December 31,		
	2021	2020	2019
Unconsolidated Joint Ventures Operational Data	*(dollars in thousands)*		
Net new home orders	32	31	61
New homes delivered	36	33	60
Selling communities at end of period	1	1	1
Backlog (dollar value)	$ —	$ 5,024	$ 5,772
Backlog (homes)	—	4	6
Units owned and controlled	3	39	72

Other Income (Expense), net

For the year ended December 31, 2021, other income, net was $3.9 million compared to other income, net of $0.1 million for the same period in 2020. The amount of other income for the year ended December 31, 2021 reflects the $4.3 million gain on our Paycheck Protection Program ("PPP") loan forgiveness partially offset by other expenses.

Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes is primarily influenced by (1) changes in the amount of pretax income (loss), (2) changes in the amount of income (loss) attributable to noncontrolling interests that are included in pretax income (loss), (3) the reversal of valuation allowances related to deferred tax assets, (4) income tax credits, or (5) changes in federal and state statutory income tax rates. The income tax provision for the year ended December 31, 2021 was $14.0 million, as compared to a benefit of $3.1 million and a provision of $6.2 million for the years ended December 31, 2020 and 2019, respectively. The effective tax rate for the year ended December 31, 2021 was 21.0%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits, offset by the energy efficient home credit. The federal energy efficient home credit provides eligible contractors a federal income tax credit of $2,000 for each home delivered that meets the energy saving and certification requirements under the statute. At the end of 2021, we concluded that 1,620 homes delivered during the year were eligible for the tax credit, providing a benefit of $3.2 million for the year ended December 31, 2021.

The effective tax rate for the year ended December 31, 2020 was 25.3%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits and prior year true-ups, partially offset by the energy efficient home credit. The effective tax rate for the year ended December 31, 2019 was 21.6%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits, partially offset by the energy efficient home credit.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective, or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and the estimates included in the consolidated financial statements might be impacted if we used different assumptions or conditions. The significant accounting policies are outlined in *Note 2 - Summary of Significant Accounting Policies* to the consolidated financial statements. The following are accounting policies that we believe are critical because of the significance of the activity to which they relate or because they require the use of significant estimates, judgments, and/or other assumptions in their application. Management believes that the following accounting policies are among the most important to the presentation of our financial condition and results of operations and require the most difficult, subjective, or complex judgments.

Real Estate Inventories

Real estate inventories include actively selling projects as well as projects under development or held for future development. Inventories are stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. The Company capitalizes pre-acquisition costs, land deposits, land, development, and other allocated costs, including interest, property taxes, and indirect construction costs to real estate inventories. Pre-acquisition costs, including non-refundable land deposits, are removed from inventory and expensed to other (expense) income, net, if the Company determines continuation of the prospective project is not probable. Land, development, and other common costs are typically allocated to real estate inventories using a methodology that approximates the relative-sales-value method. If the relative-sales-value-method is impracticable, costs are allocated based on area methods, such as square footage or lot size, or other value methods as appropriate under the circumstances. Home construction costs per production phase are recorded using the specific identification method.

The Company reviews real estate inventories on a periodic basis or whenever indicators of impairment exist. If there are indicators of impairment, the Company performs a detailed budget and cash flow review of the applicable real estate inventories to determine whether the estimated undiscounted future cash flows of the project are more or less than the asset's carrying value. If the estimated undiscounted future cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the estimated undiscounted future cash flows are less than the asset's carrying value, the asset is written down to fair value and impairment charges are recorded to cost of sales. We generally determine the estimated fair value of each community by using a discounted cash flow approach based on the estimated future cash flows at discount rates that reflect the risk of the community being evaluated.

When estimating future cash flows of a project, the Company makes various assumptions including, estimated future housing revenues, sales absorption rates, land development, construction and related carrying costs, and direct selling and marketing costs. The discounted cash flow approach can be impacted significantly by our estimates of future cash flows and the applicable discount rate, which are Level 3 inputs. The key assumptions used in inventory valuation are based on factors known to us at the time such estimates are made and our expectations of future operations and market conditions. Due to uncertainties in the estimate process, the volatility in market conditions, the long life cycle of many communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from valuation estimates.

Lot Sales and Other Revenue

Revenues from lot sales and other revenue are recorded and a profit is recognized when performance obligations are satisfied, which includes transferring a promised good or service to a customer. Lot sales and other revenue is recognized when all conditions of escrow are met, including delivery of the real estate asset in the agreed-upon condition, passage of title, receipt of appropriate consideration, and collection of associated receivables, if any, is probable, and other applicable criteria are met. Based upon the terms of the agreement, when it is determined that the performance obligation is not satisfied, the sale and the related profit are deferred for recognition in future periods.

Under the terms of certain lot sale and other contracts, the Company is obligated to perform certain development activities after the close of escrow. Due to this continuing involvement, the Company recognizes lot sales and other revenue under the percentage-of-completion method, whereby revenue is recognized in proportion to total costs incurred divided by total costs expected to be incurred.

The key assumptions relating to percentage-of-completion are impacted by local market and economic conditions, and are inherently uncertain. Although our assumptions reflect management's best estimates, due to uncertainties in the estimation process, actual results could differ from such estimates.

Warranty Accrual

We provide home purchasers with limited warranties against certain building defects and we have certain obligations related to those post-construction warranties for closed homes. The specific terms and conditions of these limited warranties vary depending upon the markets in which we do business, but generally we provide all of our home buyers with a limited warranty as to workmanship and mechanical equipment and also provide many of our home buyers with a limited 10-year warranty as to structural integrity.

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts are accrued based upon the Company's historical rates of warranty claims. Historical experience of the Company's peers is also considered due to the limited internal history of homebuilding sales. The adequacy of the warranty accrual is assessed on a quarterly basis to reflect changes in trends as information becomes available and the amounts recorded are adjusted if necessary. The warranty accrual is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets and adjustments to are recorded through cost of sales.

While we believe that our current warranty reserves are adequate, there can be no assurances that historical data and trends will accurately predict our actual warranty costs or that future developments might not lead to a significant change in the reserve. A 10% change in the historical warranty rates used to estimate our warranty accrual for the year ended December 31, 2021 would not result in a material change in our accrual.

Warrant Liability

We account for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in Financial Accounting Standards Board ("FASB") ASC 480, and ASC 815. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are recorded as liabilities at their initial fair value on the date of issuance or assumption and remeasured to fair value at each balance sheet date thereafter.

Our outstanding Private Placement Warrants are presented on the consolidated balance sheets as a liability recorded at fair value with subsequent changes in fair value recognized in the consolidated statement of operations at each reporting date as a gain (loss) on remeasurement of the warrant liability. The fair value of the Private Placement Warrants is estimated using a Black-Scholes option pricing model which includes assumptions used in the model that are subjective and require significant judgment, including implied volatility. The implied volatility is derived from the traded price of the Company's outstanding public warrants. Changes in the assumption of implied volatility

can materially affect the estimate of the fair value of these instruments and ultimately change the fair value of the Private Placement Warrants.

Goodwill

The excess of the purchase price of a business acquisition over the net fair value of assets acquired and liabilities assumed is capitalized as goodwill. Goodwill and any other intangible assets that do not have finite lives are not amortized, but rather assessed for impairment at least annually. The Company performs an annual impairment test during the fourth quarter or whenever impairment indicators are present using a two-step process to assess whether or not goodwill should be impaired. Qualitative factors may include, but are not limited to, economic conditions, industry and market considerations, cost factors, overall financial performance of the reporting units and other entity and reporting unit specific events. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required. If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or, at our election, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows. This analysis requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts; estimation of the long-term rate of growth for our business, including terminal multiples; and the determination of the respective weighted-average cost of capital. Changes in these estimates and assumptions could materially affect the determination of estimated fair value and impairment for each reporting unit. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. There was no goodwill impairment recorded during the years ended December 31, 2021, and 2020.

Business Combinations

Acquisitions are accounted for in accordance with ASC 805, "Business Combinations." In connection with the recent acquisitions of Vintage Estate Homes ("Vintage"), Garrett Walker Homes ("Garrett Walker"), and Pinnacle West Homes Holding Corp. ("Pinnacle West"), management determined in each case that the Company obtained control of a business including inputs, processes, and outputs in exchange for cash consideration. All material assets and liabilities were measured and recognized at fair value as of the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill.

The fair value of acquired inventories largely depends on the stage of production of the acquired land and work in process inventory. With the assistance of a third-party appraiser, the fair value of land and land options is generally determined based on relevant market data, such as a comparison of the subject sites to similar parcels that have recently been sold or are currently being offered on the market for sale. With the assistance of a third-party appraiser, the fair value of work in process inventories is determined based upon the stage of production of each unit and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts.

While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain. Due to the number of possible scenarios that would result from various changes in these factors, we do not believe it is possible to develop a sensitivity analysis with a level of precision that would be meaningful to an investor.

Liquidity and Capital Resources

Overview

As of December 31, 2021, we had $343.3 million of cash, cash equivalents, and restricted cash, a $233.2 million increase from December 31, 2020, primarily due to proceeds from the Merger of $64.4 million and net borrowings of debt, including via the new line of credit, of $172.8 million. Our payment for the acquisition of Vintage of $44.5

million, as well as other land purchases and construction costs, were generally offset by operating cash flows and distributions from unconsolidated joint ventures.

Our principal sources of capital are cash generated from home and land sales activities, borrowing from credit facilities, and distributions from unconsolidated joint ventures. Our principal uses of capital are land purchases, land development, home construction, repayments on credit facilities, the acquisition of other homebuilders, and the payment of routine liabilities.

Cash flows for each community depend on the community's stage in the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, entitlements and other approvals, and construction of model homes, roads, utilities, general landscaping, and other amenities. Because these costs are a component of inventory and not recognized in the consolidated statements of operations until a home closes, we incur significant cash outlays prior to recognizing earnings. In the later stages of community development, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, we are actively acquiring and developing lots in our markets to maintain and grow our supply of lots and active selling communities.

We expect to generate cash from the sale of inventory including homes under construction. We generally intend to re-deploy the cash generated from the sale of inventory to acquire and develop strategic, well-positioned lots that represent opportunities to generate future income and cash flows by allocating capital to best position us for long-term success. When it meets with our strategic goals we may continue to purchase companies that strengthen our position in markets in a way that would not be possible with organic growth. As we continue to expand our business, we expect that our cash outlays for land purchases and development to increase our lot inventory may, at times, exceed our cash generated by operations.

We intend to utilize debt as part of our ongoing financial strategy, coupled with redeployment of cash flows from operations, to finance our business. As of December 31, 2021, we had outstanding borrowings of $472.9 million in aggregate principal, excluding deferred loan costs. We will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the market value of our assets and the ability of particular assets, and our business as a whole, to generate cash flow to cover the expected debt service. In addition, our credit facilities contain certain financial covenants, among others, that limit the amount of leverage we can maintain, as well as minimum tangible net worth and liquidity requirements.

We believe that we will be able to fund our current and foreseeable liquidity needs with our cash on hand, cash generated from operations, and cash expected to be available from credit facilities or through accessing debt or equity capital as needed.

Subsequent to year-end, we used $248.5 million to acquire Hanover and paydown related debt on January 18, 2022.

Credit Facilities

On October 6, 2021, the Company entered into a credit agreement (the "Credit Agreement"). The Credit Agreement provides for a senior unsecured borrowing of up to $585.0 million of which there was $390.3 million outstanding as of December 31, 2021. The Company may increase the borrowing amount up to $850 million under certain circumstances. Borrowings under the Credit Agreement bear interest at LIBOR plus 3.25% or Prime Rate plus 2.75%. The interest rate includes a floor of 3.75%. As of December 31, 2021, the interest rate on the loan was 3.75%. The Credit Agreement matures in October 2024. Concurrently with the entry into the Credit Agreement, the Company paid off the previous lines of credit and all but one of its construction loans. The remaining construction loan has a variable interest rate of LIBOR plus 6.50% with a floor of 8.25%. As of December 31, 2021, the interest rate on the loan was 8.25%. The construction loan matures in September 2022. Both of our loans include terms to

replace LIBOR upon its ultimate sunset with either Ameribor for the Credit Agreement or the Prime Rate on the remaining construction loan.

On April 15, 2020, Landsea Holdings entered into a Paycheck Protection Program ("PPP") Note evidencing an unsecured loan in the amount of $4.3 million made to the Company under the PPP. The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act and is administered by the U.S. Small Business Association. The proceeds from the PPP Note were restricted to only being used for payroll costs (including benefits), interest on mortgage obligations, rent, utilities and interest on certain other debt obligations. The proceeds from the PPP Note were used in the operation of the Company and therefore the debt was included in the consolidated balance sheets of the Company. We fully utilized the proceeds from this loan to satisfy certain payroll and benefit obligations and applied for relief of the full amount of the loan under the PPP. In June 2021, the PPP loan was forgiven and the liability removed from the Company's consolidated balance sheets. The forgiveness was recorded as a gain on debt forgiveness and is included in other income (expense), net in the consolidated statements of operations of the Company.

Letters of Credit and Performance Bonds

In the ordinary course of business, and as part of the entitlement and development process, the Company's subsidiaries are required to provide performance bonds to assure completion of certain public facilities. The Company had $94.7 million and $78.0 million of performance bonds outstanding at December 31, 2021 and 2020, respectively. Although significant development and construction activities have been completed related to the improvements at these sites, the performance bonds are generally not released until all development and construction activities are completed.

Financial Covenants

Our loans have certain financial covenants, including requirements to maintain a minimum liquidity balance, minimum tangible net worth, as well as maximum leverage and interest coverage ratios. See the table below for the covenant calculations.

	December 31, 2021	
Financial Covenants	**Actual**	**Covenant Requirement**
	(dollars in thousands)	
Minimum Liquidity Covenant	$ 346,889	$ 50,000
Interest Coverage Ratio - Adjusted EBITDA to Interest Incurred	3.69	1.5
Tangible Net Worth	$ 596,030	$ 329,182
Maximum Leverage Ratio [(1)]	18.7%	<65%

(1) Calculation is debt, net of certain cash amounts, divided by that same net debt balance plus tangible net worth.

The loan agreements also contain certain restrictive covenants, including limitations on incurrence of other indebtedness, liens, dividends and other distributions, asset dispositions, investments, and limitations on fundamental changes. The agreements contain customary events of default, subject to cure periods in certain circumstances, that would result in the termination of the commitments and permit the lender to accelerate payment on outstanding borrowings. These events of default include nonpayment of principal, interest and fees or other amounts; violation of covenants; inaccuracy of representations and warranties; cross default to certain other indebtedness; unpaid judgments; change in control; and certain bankruptcy and other insolvency events. As of December 31, 2021, we were in compliance with all covenants.

Cash Flows—Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020

For the years ended December 31, 2021 and December 31, 2020, the comparison of cash flows is as follows:

- Net cash provided by operating activities increased to $33.4 million during the year ended December 31, 2021 compared to $13.6 million during 2020. The increase in net cash flows from operating activities was primarily due to proceeds from home sales, with net income growing $61.8 million compared to 2020. This was partially offset by more cash paid to acquire real estate inventories by $59.7 million for the year ended December 31, 2021, compared to $19.9 million during the year ended December 31, 2020. This difference was the result of additional land acquisitions and higher construction costs during the period related to a higher number of communities, a portion of which have not yet begun selling homes. Accounts payable resulting from this construction activity also increased during the year by $35.9 million which affected the timing of our cash flows from operating activities.

- Net cash used in investing activities was $25.6 million during the year ended December 31, 2021, compared to $125.1 million cash used in investing activities during the same period in 2020. This difference was primarily related to the size of our acquisitions in the comparable periods. Payments for the acquisition of Vintage, net of cash received, was $44.5 million, compared to $128.5 million used in the acquisition of Garrett Walker, net of cash received, in 2020. Distributions of capital from the Avora unconsolidated joint venture provided $22.1 million during the year ended December 31, 2021, compared to $5.2 million for the same period in 2020.

- Net cash provided by financing activities was $225.4 million during the year ended December 31, 2021, compared to net cash provided by financing activities of $65.2 million during the same period in 2020. The increase in cash provided by financing activities is due to a net increase in cash from notes and other debts payable of $172.8 million, compared to an increase in net borrowings of $94.4 million in 2020. The increase was primarily the result of the new credit facility we entered into. The increase was also due in large part to net proceeds of $64.4 million from the Merger which consisted of cash proceeds of $100.7 million less cash paid to the public warrant holders to amend the public warrants of $28.7 million and $7.5 million paid for offering related costs. Cash from the Merger was also used to pay off a convertible note of $1.5 million assumed in the Merger. In addition, during 2020 the aforementioned cash proceeds were partially offset by a $15.4 million final distribution to a noncontrolling interest related to one of our consolidated joint ventures. There was no such distribution during the year ended December 31, 2021.

Off-Balance Sheet Arrangements

Option Contracts

In the ordinary course of business, we enter into land purchase contracts in order to procure lots for the construction of homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit, and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers and others as a method of acquiring land in staged takedowns, to help manage the financial and market risk associated with land holdings, and to reduce the use of funds from financing sources. Option contracts generally require payment of a non-refundable deposit for the right to acquire lots over a specified period of time at pre-determined prices. Our obligations with respect to purchase contracts and option contracts are generally limited to the forfeiture of the related non-refundable cash deposits. As of December 31, 2021, we had outstanding purchase and option contracts totaling $399.1 million, and had $63.6 million of related cash deposits pertaining to these contracts.

The utilization of land option contracts is dependent on, among other things, the availability of land sellers willing to enter into option takedown arrangements, the availability of capital to financial intermediaries to finance the

development of optioned lots, general housing market conditions, and local market dynamics. Options may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain geographic regions.

Material Cash Requirements

The material cash requirements as of December 31, 2021 were as follows:

	Payments due by Periods (dollars in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt maturities [1]	$ 472,917	$ 82,617	$ 390,300	$ —	$ —
Operating leases [2]	14,261	4,628	5,862	2,775	996
Purchase obligations [3]	399,096	170,247	208,392	20,457	—
Total contractual obligations	$ 886,274	$ 257,492	$ 604,554	$ 23,232	$ 996

(1) Principal payments in accordance with the line of credit and construction loans. Total future interest payments of $41.9 million associated with our current outstanding debt are based on the current outstanding balance and interest rate as of December 31, 2021 through maturity.
(2) Operating lease obligations do not include payments to property owners covering common area maintenance charges.
(3) Includes the remaining purchase price for all land option and purchase contracts, net of deposits, as of December 31, 2021.

We are subject to certain requirements associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of business. Option contracts for the purchase of land enable us to defer acquiring portions of properties owned by third parties until we have determined whether to exercise our option, which may serve to reduce the financial risks associated with long-term land holdings. At December 31, 2021, we had $63.6 million of deposits, of which none are refundable. We expect to acquire the majority of such land within the next four years. Our performance on these contracts, including the timing and amount of purchase, if any, on the remaining purchase and option contracts is subject to change.

Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity during the spring, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes four to eight months to construct a new home, we deliver more homes in the second half of the year as spring and summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the third and fourth quarters, and the majority of cash receipts from home deliveries occurs during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry.

Non-GAAP Financial Measures

We include non-GAAP financial measures, including adjusted home sales gross margin, EBITDA and adjusted EBITDA, net debt to net capital, and adjusted net income. These non-GAAP financial measures are presented to provide investors additional insights to facilitate the analysis of our results of operations. These non-GAAP financial measures are not in accordance with, or an alternative for, GAAP and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures are not based on any comprehensive or standard set of accounting rules or principles. Accordingly, the calculation of our non-GAAP financial measures may differ from the definitions of non-GAAP financial measures other companies may use with the same or similar names. This limits, to some extent, the usefulness of this information for comparison purposes. Non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our financial results as determined in accordance with GAAP. This information should only be used to evaluate our financial results in conjunction with the corresponding GAAP information. Accordingly, we qualify our use of non-GAAP financial measures whenever non-GAAP financial measures are presented.

Net Debt to Net Capital

The following table presents the ratio of debt to capital as well as the ratio of net debt to net capital which is a non-GAAP financial measure. The ratio of debt to capital is computed as the quotient obtained by dividing total debt, net of issuance costs, by total capital (sum of total debt, net of issuance costs, plus total equity).

The non-GAAP ratio of net debt to net capital is computed as the quotient obtained by dividing net debt (which is total debt, net of issuance costs less cash, cash equivalents, and restricted cash as well as cash held in escrow to the extent necessary to reduce the debt balance to zero) by net capital (sum of net debt plus total equity). We have updated the calculation of net debt to net capital for the year ended December 31, 2020 to reduce debt by the amount of cash held in escrow to be consistent with our presentation for the year ended December 31, 2021. The most comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to net capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. We believe that by deducting our cash from our debt, we provide a measure of our indebtedness that takes into account our cash liquidity. We believe this provides useful information as the ratio of debt to capital does not take into account our liquidity and we believe that the ratio of net debt to net capital provides supplemental information by which our financial position may be considered.

See table below reconciling this non-GAAP measure to the ratio of debt to capital.

	December 31,	
	2021	2020
	(dollars in thousands)	
Total notes and other debts payable, net	$ 461,117	$ 264,809
Total equity	621,397	529,486
Total capital	$ 1,082,514	$ 794,295
Ratio of debt to capital	42.6 %	33.3 %
Total notes and other debts payable, net	$ 461,117	$ 264,809
Less: cash, cash equivalents and restricted cash	343,253	110,048
Less: cash held in escrow	4,079	11,618
Net debt	113,785	143,143
Total equity	621,397	529,486
Net capital	$ 735,182	$ 672,629
Ratio of net debt to net capital	15.5 %	21.3 %

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the years ended December 31, 2021, 2020, and 2019. Adjusted EBITDA is a non-GAAP financial measure used by management in evaluating operating performance. We define Adjusted EBITDA as net income before (i) income tax expense (benefit), (ii) interest expenses, (iii) depreciation and amortization, (iv) inventory impairments, (v) purchase accounting adjustments for acquired work in process inventory related to business combinations, (vi) (gain) loss on debt extinguishment, (vii) transaction costs related to the Merger and business combinations, (viii) the impact of income or loss allocations from our unconsolidated joint ventures, (ix) gain on forgiveness of PPP loan, and (x) gain (loss) on remeasurement of warrant liability. We believe Adjusted EBITDA provides an indicator of general economic performance that is not affected by fluctuations in interest, effective tax rates, levels of depreciation and amortization, and items considered to be non-recurring. The economic activity related to our unconsolidated joint ventures is not core to our operations and is the reason we have excluded those amounts. Accordingly, we believe this measure is useful for

comparing our core operating performance from period to period. Our presentation of Adjusted EBITDA should not be considered as an indication that our future results will be unaffected by unusual or non-recurring items.

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Net income (loss)	$ 52,735	$ (9,084)	$ 22,391
Provision (benefit) for income taxes	13,995	(3,081)	6,159
Interest in cost of sales	33,509	37,926	40,393
Interest relieved to equity in net income (loss) of unconsolidated joint ventures	1,267	1,162	1,934
Interest expense	32	15	—
Depreciation and amortization expense	5,393	3,580	2,960
EBITDA	106,931	30,518	73,837
Inventory impairments	—	3,413	—
Purchase price accounting in cost of home sales	14,588	15,519	2,874
Transaction costs	5,313	1,031	1,220
Equity in net loss (income) of unconsolidated joint ventures, net of interest	(2,529)	15,256	5,967
Gain on PPP loan forgiveness	(4,266)	—	—
Gain on remeasurement of warrant liability	(2,090)	—	—
Less: Imputed interest in cost of sales [(1)]	—	(776)	(10,024)
Adjusted EBITDA	$ 117,947	$ 64,961	$ 73,874

(1) Imputed interest related to a land banking transaction that was treated as a product financing arrangement.

Adjusted Net Income

Adjusted Net Income to LHC is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating our operating results and understanding our operating results without the effect of certain expenses that were historically pushed down by our parent company and other non-recurring items. We believe excluding these items provides a more comparable assessment of our financial results from period to period. Adjusted Net Income to LHC is calculated by excluding the effects of related party interest that was pushed down by our parent company, purchase accounting adjustments for acquired work in process inventory related to business combinations, the impact from our unconsolidated joint ventures, merger related transaction costs, gain on forgiveness of PPP loan, and gain (loss) on remeasurement of warrant liability, and tax-effected using a blended statutory tax rate. The economic activity related to our unconsolidated joint ventures is not core to our operations and is the reason we have excluded those amounts. We also adjust for the expense of

related party interest pushed down from our parent company as we have no obligation to repay the debt and related interest.

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Net income (loss) attributable to Landsea Homes Corporation	$ 52,786	$ (8,951)	$ 17,200
Inventory impairments	—	3,413	—
Previously capitalized related party interest included in cost of sales	11,670	14,110	15,646
Equity in net (income) loss of unconsolidated joint ventures	(1,262)	16,418	7,901
Purchase price accounting for acquired inventory	14,588	15,519	2,874
Merger related transaction costs	2,656	—	—
Gain on PPP loan forgiveness	(4,266)	—	—
Gain on remeasurement of warrant liability	(2,090)	—	—
Total adjustments	21,296	49,460	26,421
Tax-effected adjustments [(1)]	14,004	36,933	20,721
Adjusted net income attributable to Landsea Homes Corporation	$ 66,790	$ 27,982	$ 37,921

(1) Our tax-effected adjustments are based on our federal rate and a blended state rate adjusted for certain discrete items.

Item 8. Financial Statements

Landsea Homes Corporation
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Landsea Homes Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Landsea Homes Corporation and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of operations, of equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
March 16, 2022

We have served as the Company's auditor since 2019.

Landsea Homes Corporation
Consolidated Balance Sheets

(in thousands, except share and per share amounts)

	December 31,	
	2021	2020
Assets		
Cash and cash equivalents	$ 342,810	$ 105,778
Cash held in escrow	4,079	11,618
Restricted cash	443	4,270
Real estate inventories (including related party interest of $7,509 and $18,721, respectively)	844,792	687,819
Due from affiliates	4,465	2,663
Investment in and advances to unconsolidated joint ventures (including related party interest of $70 and $1,320, respectively)	470	21,342
Goodwill	24,457	20,705
Other assets (including right-of-use assets with a related party of $2,010 and $0, respectively)	43,998	41,569
Total assets	$ 1,265,514	$ 895,764
Liabilities		
Accounts payable	$ 73,734	$ 36,243
Accrued expenses and other liabilities (including lease liabilities with a related party of $2,010 and $0, respectively)	97,724	62,869
Due to affiliates	2,357	2,357
Warrant liability	9,185	—
Notes and other debts payable, net	461,117	264,809
Total liabilities	644,117	366,278
Commitments and contingencies		
Equity		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized, none issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 46,281,091 and 32,557,303 issued and outstanding as of December 31, 2021 and December 31, 2020	5	3
Additional paid-in capital	535,345	496,171
Retained earnings	84,797	32,011
Total stockholders' equity	620,147	528,185
Noncontrolling interests	1,250	1,301
Total equity	621,397	529,486
Total liabilities and equity	$ 1,265,514	$ 895,764

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2021	2020	2019
Revenue			
Home sales (including to related parties of $10,751, $0, and $0, respectively)	$ 936,400	$ 734,608	$ 568,872
Lot sales and other (including to related parties of $3,226, $0, and $0, respectively)	86,904	—	62,116
Total revenue	1,023,304	734,608	630,988
Cost of sales			
Home sales (including related party interest of $11,670, $14,110, and $15,526, respectively and cost of sales to related parties of $8,770, $0, and $0, respectively)	772,575	636,324	478,054
Inventory impairments	—	3,413	—
Lot sales and other (including related party interest of $0, $0, and $120, respectively and cost of sales to related parties of $2,966, $0, and $0, respectively)	68,131	—	53,475
Total cost of sales	840,706	639,737	531,529
Gross margin			
Home sales	163,825	94,871	90,818
Lot sales and other	18,773	—	8,641
Total gross margin	182,598	94,871	99,459
Sales and marketing expenses	52,840	48,100	26,522
General and administrative expenses	70,266	42,598	34,884
Total operating expenses	123,106	90,698	61,406
Income from operations	59,492	4,173	38,053
Other income (expense), net	3,886	80	(1,602)
Equity in net income (loss) of unconsolidated joint ventures (including related party interest of $1,250, $1,146, and $1,908, respectively)	1,262	(16,418)	(7,901)
Gain on remeasurement of warrant liability	2,090	—	—
Pretax income (loss)	66,730	(12,165)	28,550
Provision (benefit) for income taxes	13,995	(3,081)	6,159
Net income (loss)	52,735	(9,084)	22,391
Net (loss) income attributable to noncontrolling interests	(51)	(133)	5,191
Net income (loss) attributable to Landsea Homes Corporation	$ 52,786	$ (8,951)	$ 17,200
Earnings (loss) per share:			
Basic	$ 1.14	$ (0.27)	$ 0.53
Diluted	$ 1.14	$ (0.27)	$ 0.53
Weighted average shares outstanding:			
Basic	45,198,722	32,557,303	32,557,303
Diluted	45,250,718	32,557,303	32,557,303

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation

Consolidated Statements of Equity

(in thousands, except shares)

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Noncontrolling Interests	Total Equity
Balance at December 31, 2018	1,000	$ —	$ 508,823	$ 23,762	$ 12,571	$ 545,156
Retroactive application of recapitalization	32,556,303	3	(3)	—	—	—
Adjusted balance, beginning of period	32,557,303	$ 3	$ 508,820	$ 23,762	$ 12,571	$ 545,156
Contributions from noncontrolling interests	—	—	—	—	130	130
Net income	—	—	—	17,200	5,191	22,391
Net transfers from parent	—	—	15,693	—	—	15,693
Balance at December 31, 2019	32,557,303	$ 3	$ 524,513	$ 40,962	$ 17,892	$ 583,370
Contributions from noncontrolling interests	—	—	—	—	198	198
Distributions to noncontrolling interests	—	—	—	—	(15,414)	(15,414)
Net loss	—	—	—	(8,951)	(133)	(9,084)
Net transfers to parent	—	—	(28,342)	—	(1,242)	(29,584)
Balance at December 31, 2020	32,557,303	$ 3	$ 496,171	$ 32,011	$ 1,301	$ 529,486
Recapitalization transaction, net of fees and deferred taxes	13,673,722	2	33,366	—	—	33,368
Vesting of restricted stock units	50,066	—	—	—	—	—
Stock-based compensation expense	—	—	5,808	—	—	5,808
Net income (loss)	—	—	—	52,786	(51)	52,735
Balance at December 31, 2021	46,281,091	$ 5	$ 535,345	$ 84,797	$ 1,250	$ 621,397

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income (loss)	$ 52,735	$ (9,084)	$ 22,391
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,393	3,580	2,960
Gain on remeasurement of warrant liability	(2,090)	—	—
Stock-based compensation expense	5,808	—	—
Gain on forgiveness of PPP loans	(4,266)	—	—
Inventory impairments	—	3,413	—
Abandoned project costs	555	380	696
Distributions of earnings from unconsolidated joint ventures	—	—	3,561
Equity in net (earnings) loss of unconsolidated joint ventures	(1,262)	16,418	7,901
Deferred taxes	(2,826)	(5,024)	(1,345)
Changes in operating assets and liabilities:			
Cash held in escrow	7,539	(2,782)	(7,132)
Real estate inventories	(59,655)	(19,895)	94,382
Due from affiliates	(1,802)	(174)	1,445
Notes receivable from lot sales	—	—	17,450
Other assets	(6,045)	(756)	(3,605)
Accounts payable	35,850	15,744	(20,601)
Accrued expenses and other liabilities	3,466	10,779	(11,908)
Due to affiliates	—	1,010	(153)
Net cash provided by operating activities	33,400	13,609	106,042
Cash flows from investing activities:			
Purchases of property and equipment	(3,176)	(1,794)	(5,585)
Distributions of capital from unconsolidated joint ventures	22,134	5,196	1,681
Repayments of advances from unconsolidated joint ventures	—	—	5,000
Payments for business acquisition, net of cash acquired	(44,537)	(128,528)	(23,562)
Net cash used in investing activities	(25,579)	(125,126)	(22,466)
Cash flows from financing activities:			
Borrowings from notes and other debts payable	910,487	600,391	276,559
Repayments of notes and other debts payable	(737,683)	(505,942)	(296,203)
Proceeds from merger, net of fees and other costs	64,434	—	—
Repayment of convertible note	(1,500)	—	—
Repayments of land bank financing	—	—	(41,667)
Contributions from noncontrolling interests	—	198	130
Distributions to noncontrolling interests	—	(15,414)	—
Deferred offering costs paid	(1,832)	(7,466)	—
Debt issuance costs paid	(8,522)	(5,532)	(1,299)
Cash (distributed to) provided by parent, net	—	(1,048)	15,693
Net cash provided by (used in) financing activities	225,384	65,187	(46,787)
Net increase (decrease) in cash, cash equivalents, and restricted cash	233,205	(46,330)	36,789
Cash, cash equivalents, and restricted cash at beginning of year	110,048	156,378	119,589
Cash, cash equivalents, and restricted cash at end of year	$ 343,253	$ 110,048	$ 156,378

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

1. Company

Landsea Homes Corporation ("LHC" or the "Company"), a majority owned subsidiary of Landsea Holdings Corporation ("Landsea Holdings"), together with its subsidiaries, is engaged in the acquisition, development, and sale of homes and lots in Arizona, California, Florida, New Jersey, New York, and Texas. The Company's operations are organized into the following five reportable segments: Arizona, California, Florida, Metro New York and Texas.

On August 31, 2020, LHC and its parent, Landsea Holdings, entered into an Agreement and Plan of Merger (the "Merger Agreement") with LF Capital Acquisition Corp. ("LF Capital") and LFCA Merger Sub, Inc. (the "Merger Sub"), a direct, wholly-owned subsidiary of LF Capital. The Merger Agreement provided for, among other things, the merger of Merger Sub with and into Landsea Homes Incorporated ("LHI"), previously a wholly-owned subsidiary of Landsea Holdings, with LHI continuing as the surviving corporation (the "Merger").

On January 7, 2021 (the "Closing Date"), the Merger was consummated pursuant to the Merger Agreement (the "Closing"). The name of the surviving company, LF Capital Acquisition Corp., was changed at that time to Landsea Homes Corporation. Subject to the terms of the Merger Agreement, Landsea Holdings received $343.8 million of stock consideration, consisting of 32.6 million newly issued shares of LF Capital Acquisition Corp.'s publicly-traded Class A common stock. The shares were valued at $10.56 per share for purposes of determining the aggregate number of shares payable to Landsea Holdings (the "Stock Consideration").

Upon Closing, Level Field Capital, LLC (the "Sponsor") held 1.0 million shares that are subject to surrender and forfeiture for no consideration in the event the common stock does not reach certain thresholds during the twenty-four month period following the closing of the Merger ("Earnout Shares"). The Sponsor transferred 0.5 million Earnout Shares to Landsea Holdings. Additionally, the Sponsor forfeited 2.3 million private placement warrants and transferred 2.2 million private placement warrants to Landsea Holdings (such private placement warrants, each exercisable to purchase one share of Common Stock at an exercise price of $11.50 per share, are referred to as the "Private Placement Warrants", and together with the public warrants they are referred to as the "Warrants").

In connection with the Merger, the Company received $64.4 million from the Merger after payments of $28.7 million related to the public warrant amendment and $7.5 million in transaction expenses incurred. The Company incurred direct and incremental costs of approximately $16.7 million related to the equity issuance, consisting primarily of investment banking, legal, accounting and other professional fees, which were recorded to additional paid-in capital as a reduction of proceeds. The Company recorded $2.7 million in general and administrative expenses in 2021 related to the accelerated vesting of the phantom awards. The Company paid cash of $2.9 million for the phantom stock awards and issued 0.2 million shares with an issuance date value of $1.9 million at the time of the Merger.

The Merger was accounted for as a reverse recapitalization. Under this method of accounting, LF Capital is treated as the "acquired" company for financial reporting purposes. This determination was primarily based on the current stockholder of LHC, Landsea Holdings, having a relative majority of the voting power of the combined entity, the operations of LHI prior to the Merger comprising the only ongoing operations of the combined entity, and senior management of LHI comprising the senior management of the combined entity. Accordingly, for accounting purposes, the financial statements of the combined entity represent a continuation of the financial statements of LHI with the acquisition being treated as the equivalent of LHI issuing stock for the net assets of LF Capital, accompanied by a recapitalization. The net assets of LHI are stated at historical cost, with no goodwill or other intangible assets recorded. The shares and net income (loss) per share available to holders of the LHI's common stock, prior to the Merger, have been retroactively restated as shares reflecting the exchange ratio established in the Merger Agreement. We recorded an incremental $1.7 million to additional paid-in capital as part of our recapitalization transaction related to tax deductible transaction costs which required a detailed analysis that was finalized during the quarter ended December 31, 2021.

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2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company and all of its wholly owned, majority owned, and controlled subsidiaries, which are referred to as the Company, unless context requires otherwise. Non-controlling interest represents the proportionate equity interests in consolidated entities that are not wholly owned by the Company. All intercompany transactions and balances have been eliminated in consolidation.

Prior to the Merger, the Company was historically funded as part of Landsea Holdings' treasury program. Cash and cash equivalents were primarily centrally managed through bank accounts legally owned by Landsea Holdings. Accordingly, cash and cash equivalents held by Landsea Holdings at the corporate level were not attributed to the Company for any of the periods presented prior to the merger. Only cash amounts legally owned by entities consolidated by the Company are reflected in the consolidated balance sheets. Transfers of cash, both to and from Landsea Holdings' treasury program, were reflected as a component of additional paid-in capital in the consolidated balance sheets and as a financing activity on the accompanying consolidated statements of cash flows. As the functional departments that made up the Company were not held by a single legal entity, balances between the Company and Landsea Holdings that were not historically cash settled were included in additional paid-in capital.

Landsea Holdings holds a series of notes payable to affiliated entities of its parent. The cash Landsea Holdings received from this debt was partially utilized to fund operations of the Company. Related party interest incurred by Landsea Holdings (the "Related Party Interest") was historically pushed down to the Company and reflected on the consolidated balance sheets of the Company, primarily in real estate inventories, and on the consolidated statements of operations in cost of sales. Refer to *Note 5 - Capitalized Interest* for further detail. As the Company did not guarantee the notes payable nor have any obligations to repay the notes payable, and as the notes payable will not be assigned to the Company, the notes payable do not represent a liability of the Company and accordingly have not been reflected in the consolidated balance sheets. Additionally, in connection with the Merger, LHC is precluded from repaying Landsea Holdings' notes payable to the affiliated entities of its parent. Therefore, as of January 7, 2021, the Related Party Interest is no longer pushed down to LHC.

During the periods presented in the consolidated financial statements prior to the Merger, the Company was included in the consolidated U.S. federal, and certain state and local, income tax returns filed by Landsea Holdings, where applicable. Income tax expense and other income tax related information contained in these consolidated financial statements are presented on a separate return basis as if the Company had filed its own tax returns. Additionally, certain tax attributes such as net operating losses or credit carryforwards are presented on a separate return basis, and accordingly, may differ in the future. In jurisdictions where the Company has been included in the tax returns filed by Landsea Holdings, any income tax payables or receivables resulting from the related income tax provisions have been reflected in the consolidated balance sheets and the effect of the push down is reflected within additional paid-in capital.

Management of the Company believes that the assumptions underlying the consolidated financial statements reasonably reflect the utilization of services provided, or benefits received by the Company during the periods presented. Nevertheless, the consolidated financial statements may not be indicative of the Company's future performance and therefore periods prior to the Merger do not necessarily reflect the results of operations, financial position, or cash flows of the Company if it had been an independent entity during those periods.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Cash and Cash Equivalents—The Company defines cash and cash equivalents as demand deposits with financial institutions and short-term liquid investments with a maturity date of less than three months from the date of purchase.

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Cash Held in Escrow—Cash held in escrow consists of proceeds from home closings held in escrow for the Company's benefit, typically for less than five days.

Restricted Cash—Restricted cash consists of cash, cash equivalents, and certificates of deposit held as collateral related to development obligations or held in escrow by the Company's loan service providers on behalf of the lenders and disbursed in accordance with agreements between the transacting parties.

Real Estate Inventories and Cost of Sales—Real estate inventories include actively selling projects as well as projects under development or held for future development. Inventories are stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. The Company capitalizes pre-acquisition costs, land deposits, land, development, and other allocated costs, including interest, property taxes, and indirect construction costs to real estate inventories. Pre-acquisition costs, including non-refundable land deposits, are removed from inventory and expensed to other (expense) income, net, if the Company determines continuation of the prospective project is not probable. Land, development, and other common costs are typically allocated to real estate inventories using a methodology that approximates the relative-sales-value method. If the relative-sales-value-method is impracticable, costs are allocated based on area methods, such as square footage or lot size, or other value methods as appropriate under the circumstances. Home construction costs per production phase are recorded using the specific identification method.

Cost of sales for homes closed includes construction costs of each home, an allocation of applicable land acquisition, land development, and related common costs, plus an estimate of any applicable costs required to complete the home or common area development. Changes in estimated development and common costs are allocated prospectively to remaining homes in a project.

The Company reviews real estate inventories on a periodic basis or whenever indicators of impairment exist. If there are indicators of impairment, the Company performs a detailed budget and cash flow review of the applicable real estate inventories to determine whether the estimated undiscounted future cash flows of the project are more or less than the asset's carrying value. If the estimated undiscounted future cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the estimated undiscounted future cash flows are less than the asset's carrying value, the asset is written down to fair value and impairment charges are recorded to cost of sales. We generally determine the estimated fair value of each community by using a discounted cash flow approach based on the estimated future cash flows at discount rates that reflect the risk of the community being evaluated.

When estimating future cash flows of a project, the Company makes various assumptions including, estimated future housing revenues, sales absorption rates, land development, construction and related carrying costs, and direct selling and marketing costs. The discounted cash flow approach can be impacted significantly by our estimates of future cash flows and the applicable discount rate, which are Level 3 inputs. The key assumptions used in inventory valuation are subject to a variety of external factors and are inherently uncertain. Accordingly, actual results could differ from valuation estimates. See *Note 4 - Real Estate Inventories* for additional information.

Capitalization of Interest—The Company follows the practice of capitalizing interest to real estate inventories during the period of development and to investments in unconsolidated joint ventures, when applicable, in accordance with Accounting Standards Codification ("ASC") Topic 835, *Interest*. Interest capitalized as a component of real estate inventories is included in cost of sales as related homes or lots are sold. To the extent interest is capitalized to investment in unconsolidated joint ventures, it is included as a reduction to income from unconsolidated joint ventures when the related homes or lots are sold to third parties. To the extent the Company's debt exceeds its qualified assets as defined in ASC 835, the Company would expense a portion of the interest incurred. Qualified assets represent projects that are under development as well as investments in unconsolidated joint ventures accounted for under the equity method until such equity method investees begin their principal operations.

Business Combinations—Acquisitions are accounted for in accordance with ASC 805, "Business Combinations." In connection with the recent acquisitions of Vintage Estate Homes ("Vintage"), Garrett Walker Homes ("Garrett Walker"), and Pinnacle West Homes Holding Corp. ("Pinnacle West"), management determined in each case that

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the Company obtained control of a business including inputs, processes, and outputs in exchange for cash consideration. All material assets and liabilities were measured and recognized at fair value as of the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets.

The fair value of acquired inventories largely depends on the stage of production of the acquired land and work in process inventory. For acquired land inventory, we typically utilize, with the assistance of a third party appraiser, a forecasted cash flow approach for the development, marketing, and sale of communities acquired. Significant assumptions included in our estimates include future per lot development costs, construction and overhead costs, mix of products sold in each community, as well as average sales price. For work in process inventories, we estimate the fair value based upon the stage of production of each unit and a gross margin that we believe a market participant would require to complete the remaining development and requisite selling efforts. Refer to *Note 3 - Business Combinations* for further information regarding the purchase price allocation and related acquisition accounting.

Investment in and Advances to Unconsolidated Joint Ventures—The Company uses the equity method to account for investments in joint ventures that qualify as variable interest entities ("VIEs") where the Company is not the primary beneficiary and other entities that it does not control but has the ability to exercise significant influence over the operating and financial policies of the investee. The Company also uses the equity method when it functions as the managing member or general partner and its venture partner has substantive participating rights or where the Company can be replaced by its venture partner as managing member without cause.

As of December 31, 2021 and 2020, the Company concluded that some of its joint ventures were VIEs. The Company concluded that it was not the primary beneficiary of the variable interest entities and, accordingly, accounted for these entities under the equity method of accounting.

Under the equity method, the Company recognizes its proportionate share of earnings and losses generated by the joint venture upon the delivery of lots or homes to third parties. The Company classifies cash distributions received from equity method investees using the cumulative earnings approach. Under the cumulative earnings approach, distributions received are considered returns on investment and shall be classified as cash inflows from operating activities unless the cumulative distributions received less distributions received in prior periods exceed cumulative equity in earnings. When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and shall be classified as cash inflows from investing activities. The Company's ownership interests in its unconsolidated joint ventures vary but are generally less than or equal to 51%. The accounting policies of the Company's joint ventures are consistent with those of the Company.

The Company also reviews its investments in and advances to unconsolidated joint ventures for evidence of other-than-temporary declines in value. To the extent the Company deems any portion of its investment in and advances to unconsolidated joint ventures as not recoverable, the Company would impair its investment accordingly. For the years ended December 31, 2021 and 2020, no impairments related to investment in and advances to unconsolidated joint ventures were recorded.

Variable Interest Entities—The Company accounts for variable interest entities in accordance with ASC 810, *Consolidation*. Under ASC 810, a VIE is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity's equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity's equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive

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benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE.

Under ASC 810, a non-refundable deposit paid to an entity may be deemed to be a variable interest that will absorb some or all of the entity’s expected losses if they occur. The Company's land purchase and lot option deposits generally represent its maximum exposure to the land seller if it elects not to purchase the optioned property. Therefore, whenever the Company enters into a land option or purchase contract with an entity and makes a non-refundable deposit, a VIE may have been created.

As of December 31, 2021 and 2020, the Company was not required to consolidate any VIEs. In accordance with ASC 810, the Company performs ongoing reassessments of whether it is the primary beneficiary of a VIE.

Goodwill—The excess of the purchase price of a business acquisition over the net fair value of assets acquired and liabilities assumed is capitalized as goodwill. Goodwill and any other intangible assets that do not have finite lives are not amortized, but rather assessed for impairment at least annually. The Company performs an annual impairment test during the fourth quarter or whenever impairment indicators are present using a two-step process to assess whether or not goodwill should be impaired. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required. If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or, at our election, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. There was no goodwill impairment recorded during the years ended December 31, 2021, and 2020.

Property and Equipment—Property and equipment are recorded at cost and depreciated to general and administrative expense using the straight-line method over their estimated useful lives, typically ranging from two to five years. Leasehold improvements are stated at cost and amortized to general and administrative expense using the straight-line method over the shorter of either their estimated useful lives or the term of the lease. For the years ended December 31, 2021, 2020, and 2019 the Company incurred depreciation expense of $1.7 million, $1.4 million, and $1.1 million, respectively.

Capitalized Selling and Marketing Costs—In accordance with ASC 606, *Revenue from Contracts with Customers*, and ASC 340, *Other Assets and Deferred Cost*, costs incurred for tangible assets directly used in the sales process such as the Company's sales offices, and model landscaping and furnishings are capitalized to property and equipment which is included in other assets in the accompanying consolidated balance sheets. These costs are amortized to selling and marketing expenses generally over the estimated life of the selling community. For the years ended December 31, 2021, 2020, and 2019 the Company incurred amortization expense of $2.0 million, $1.6 million, and $1.9 million, respectively. All other selling and marketing costs, such as commissions and advertising, are expensed as incurred. Advertising and marketing costs of $3.2 million, $2.4 million, and $2.5 million for the years ended December 31, 2021, 2020, and 2019, respectively, are included in sales and marketing expenses on the consolidated statements of operations.

Warranty Accrual—We provide home purchasers with limited warranties against certain building defects and we have certain obligations related to those post-construction warranties for closed homes. The specific terms and conditions of these limited warranties vary depending upon the markets in which we do business, but generally we provide all of our home buyers with a limited warranty as to workmanship and mechanical equipment and also provide many of our home buyers with a limited 10-year warranty as to structural integrity.

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts are accrued based upon the Company's historical rates of warranty claims. Historical experience of the Company’s peers is also considered due to the Company's limited internal history of homebuilding sales. The adequacy of the warranty accrual is assessed on a quarterly basis to reflect changes in trends as information becomes available and the amounts recorded are adjusted if necessary. The

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warranty accrual is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets and adjustments to are recorded through cost of sales.

Warrant Liability—We account for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant’s specific terms and applicable authoritative guidance in Financial Accounting Standards Board (“FASB”) ASC 480, and ASC 815. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are recorded as liabilities at their initial fair value on the date of issuance or assumption and remeasured to fair value at each balance sheet date thereafter.

The Company’s outstanding Private Placement Warrants are presented on the consolidated balance sheets as a liability recorded at fair value with subsequent changes in fair value recognized in the consolidated statement of operations at each reporting date as a gain (loss) on remeasurement of the warrant liability. The fair value of the Private Placement Warrants is estimated using a Black-Scholes option pricing model which includes assumptions used in the model that are subjective and require significant judgment, including implied volatility, which is a Level 3 input. Each Private Placement Warrant is exercisable at $11.50 into one share of common stock. The Warrants will expire five years after the completion of the Merger or earlier upon redemption or liquidation. Refer to *Note 16 - Stockholders' Equity* for additional information on the Warrants. The fair value of the Private Placement Warrants is discussed further in *Note 14 - Fair Value*.

Home Sales Revenue—Home sales revenue is recognized when the Company's performance obligations within the underlying sales contracts are fulfilled. The Company considers its obligations fulfilled when closing conditions are complete, title has transferred to the homebuyer, and collection of the purchase price is reasonably assured. Sales incentives are recorded as a reduction of revenue when the respective home is closed. When it is determined that the earnings process is not complete, the related revenue is deferred for recognition in future periods.

Lot Sales and Other Revenue—Revenues from lot sales and other revenue are recorded and a profit is recognized when performance obligations are satisfied, which includes transferring a promised good or service to a customer. Lot sales and other revenue is recognized when all conditions of escrow are met, including delivery of the real estate asset in the agreed-upon condition, passage of title, receipt of appropriate consideration, and collection of associated receivables, if any, is probable, and other applicable criteria are met. Based upon the terms of the agreement, when it is determined that the performance obligation is not satisfied, the sale and the related profit are deferred for recognition in future periods.

Under the terms of certain lot sale and other contracts, the Company is obligated to perform certain development activities after the close of escrow. Due to this continuing involvement, the Company recognizes lot sales and other revenue under the percentage-of-completion method, whereby revenue is recognized in proportion to total costs incurred divided by total costs expected to be incurred.

As of December 31, 2021, the Company had $4.0 million deferred revenue from lot sales and other revenue. The Company recognizes these amounts as development progresses and the related performance obligations are completed. As of December 31, 2021, the Company had contract assets of $6.1 million from lot sales and other contracts. The contract asset balance represents cash to be received for work already performed on lot sale and other contracts. The amount of the transaction price for lot sales and other contracts allocated to performance obligations that were unsatisfied, or partially unsatisfied, as of December 31, 2021 was $63.9 million. As of December 31, 2020, the Company had no deferred revenue or contract assets. There was no outstanding amount related to unsatisfied performance obligations as of December 31, 2020.

Income Taxes—The Company records income taxes in accordance with ASC 740, *Income Taxes*, whereby deferred tax assets and liabilities are recognized based on the differences in the book and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply in the years that the differences are expected to reverse. The Company adjusts deferred tax assets and liabilities for the effects of changes in tax laws and rates in the period of enactment. Tax credits are recognized through our effective tax rate calculation assuming that we will be able to realize the full benefit of the credits.

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Each year the Company assesses its deferred tax asset to determine whether all or any portion of the asset is more likely than not (defined as a likelihood of more than 50%) unrealizable under ASC 740. The Company is required to establish a valuation allowance for any portion of the tax asset determined to be more likely than not unrealizable. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. Judgment is required in determining the future tax consequences of events that have been recognized in the Company's consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated financial statements.

Stock-Based Compensation Expense—In accordance with ASC 718, *Compensation—Stock Compensation*, stock-based compensation expense for all share-based payment awards is based on the grant date fair value. We recognize expense for share-based payment awards with only service-based vesting conditions on a straight-line basis over the requisite service period of the award. Expense associated with awards that include a performance-based vesting condition is not recognized until it is determined that it is probable the performance-based conditions will be met. When achievement of a performance-based condition is probable, a catch-up of expense will be recorded as if the award had been vesting on a straight-line basis from the award date. The award will continue to be expensed on a straight-line basis, adjusted for probability, until the award vests or expires as worthless.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application for fiscal years beginning after December 15, 2020. The Company adopted the amendments in this update on January 1, 2021. The adoption did not have a material impact on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815)*. ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the amendments in this update on January 1, 2021. The adoption did not have a material impact on the Company's consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*, which provides clarity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. Particularly, the update states that an entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, which requires application of ASC 606, *Revenue from Contracts with Customers*, to recognize and measure contract assets and liabilities from contracts with customers acquired in a business combination. ASU 2021-08 creates an exception to the general recognition and measurement principle in ASC 805 and will result in recognition of contract assets and contract liabilities consistent with those recorded by the acquiree immediately before the acquisition date. The standard is effective for fiscal years beginning after

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December 15, 2022, with early adoption permitted. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on an entity's financial statements. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company early adopted this update for presentation of its consolidated financial statements as of December 31, 2021. The adoption did not have a material impact on the Company's consolidated financial statements.

3. Business Combinations

On May 4, 2021, the Company acquired 100% of Mercedes Premier Homes, LLC (also known as Vintage Estate Homes, LLC, or "Vintage"), a Florida- and Texas-based homebuilder, for an aggregate cash purchase price of $54.6 million. In addition, we assumed $32.1 million of debt and paid down $3.8 million of debt in connection with the acquisition. The total assets of Vintage included approximately 20 development projects (unaudited) and 1,800 lots (unaudited) in various stages of development.

In accordance with ASC 805, *Business Combinations*, the assets acquired and liabilities assumed from our acquisitions of Vintage, Garrett Walker, and Pinnacle West were measured and recognized at fair value as of the date of the acquisitions to reflect the purchase price paid.

Acquired inventories consist of land, land deposits, and work in process inventories. For acquired land and land options, the Company typically utilizes, with the assistance of a third party appraiser, a sales comparison approach. For work in process inventories, the Company estimates the fair value based upon the stage of production of each unit and a gross margin that management believes a market participant would require to complete the remaining development and requisite selling efforts. On the acquisition date, the stage of production for each lot ranged from recently started lots to fully completed homes. The intangible asset acquired relates to the Vintage trade name, which is estimated to have a fair value of $1.6 million and is being amortized over one year. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed and relates primarily to the assembled workforce. Goodwill of $3.8 million was recorded on the consolidated balance sheets as a result of this transaction and is deductible for tax purposes over 15 years. The acquired goodwill is included in the Florida reporting segment in *Note 13*, *Segment Reporting*. The Company incurred transaction related costs of $0.9 million related to the Vintage acquisition during the year ended December 31, 2021.

The Company's results of operations include homebuilding revenues from the Vintage acquisition of $125.4 million during the year ended December 31, 2021. The accompanying consolidated statement of operations before tax also includes a loss of $0.9 million, during the year ended December 31, 2021, inclusive of purchase price accounting and an allocation of corporate general and administrative expenses.

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The following is a summary of the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed *(dollars in thousands)*.

Assets Acquired		
Cash	$	10,063
Real estate inventories		93,699
Goodwill		3,752
Trade name		1,550
Other assets		3,956
Total assets	$	113,020
Liabilities Assumed		
Accounts payable	$	1,641
Accrued expenses		24,660
Notes payable		32,119
Total liabilities		58,420
Net assets acquired	$	54,600

On January 15, 2020, the Company acquired 100% of the membership interest of Garrett Walker for cash consideration of approximately $133.4 million. Garrett Walker is a residential homebuilder located in Phoenix, Arizona focused on building entry-level, single-family detached homes in the Northwest Valley and Phoenix metropolitan. The total assets included approximately 20 development projects (unaudited) and 1,750 lots (unaudited) in various stages of development. The intangible asset acquired relates to the Garrett Walker trade name, which is estimated to have a fair value of $1.6 million and is being amortized over three years. Goodwill of $15.4 million was recorded on the consolidated balance sheets as a result of this transaction and is expected to be deductible for tax purposes over 15 years. The acquired goodwill is included in the Arizona reporting segment. The Company incurred transaction costs of $0.7 million related to the Garrett Walker acquisition during the year ended December 31, 2020.

The following is a summary of the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed *(dollars in thousands)*.

Assets Acquired		
Cash	$	2,905
Real estate inventories		119,466
Goodwill		15,392
Trade name		1,600
Other assets		532
Total assets	$	139,895
Liabilities Assumed		
Accounts payable	$	5,425
Accrued expenses		1,037
Total liabilities		6,462
Net assets acquired	$	133,433

On June 20, 2019, the Company acquired 100% of the stock of Pinnacle West for cash consideration of $25.8 million. Pinnacle West is a residential homebuilder located in Phoenix, Arizona and was comprised of 15 projects (unaudited) in various stages of development at the time of acquisition. Goodwill of $5.3 million was recorded on the consolidated balance sheets and is expected to be deductible for tax purposes over 15 years. The acquired goodwill is included in the Arizona reporting segment. The Company incurred transaction costs of $1.1 million related to the Pinnacle West acquisition during the year ended December 31, 2019. The following is a summary of

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the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed *(dollars in thousands)*.

Assets		
Cash	$	2,208
Real estate inventories		39,584
Goodwill		5,315
Other assets		60
Total assets	$	47,167
Liabilities		
Accounts payable	$	2,626
Notes payable		16,228
Accrued expenses and other liabilities		2,543
Total liabilities		21,397
Net assets acquired	$	25,770

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and net income (loss) for the years ended December 31, 2021, 2020, and 2019 give effect to the results of the acquisitions of Vintage, Garrett Walker, and Pinnacle West as though the respective acquisition dates were as of January 1, 2020, January 1, 2019, and January 1, 2018 the beginning of the year preceding the respective acquistions. Unaudited pro forma net income (loss) adjusts the operating results of the stated acquisitions to reflect the additional costs that would have been recorded assuming the fair value adjustments had been applied as of the beginning of the year preceding the year of acquisition, including the tax-effected amortization of the acquired trade names and transaction related costs.

	Year Ended December 31,		
	2021	**2020**	**2019**
	(dollars in thousands)		
Revenue	$ 1,078,715	$ 894,177	$ 799,559
Pretax income (loss)	$ 76,747	$ (19,183)	$ 35,336
(Provision) benefit for income taxes	(16,095)	4,858	(7,625)
Net income (loss)	$ 60,652	$ (14,325)	$ 27,711

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	December 31,	
	2021	**2020**
	(dollars in thousands)	
Deposits and pre-acquisition costs	$ 65,724	$ 34,102
Land held and land under development	243,310	221,055
Homes completed or under construction	526,950	395,926
Model homes	8,808	36,736
Total real estate inventory	$ 844,792	$ 687,819

Deposits and pre-acquisition costs include land deposits and other due diligence costs related to potential land acquisitions. Land held and land under development includes costs incurred during site development such as

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development, indirect costs, and permits. Homes completed or under construction and model homes include all costs associated with home construction, including land, development, indirect costs, permits, materials and labor.

In accordance with ASC 360, inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. The Company reviews each real estate asset at the community-level, on a quarterly basis or whenever indicators of impairment exist. We generally determine the estimated fair value of each community by using a discounted cash flow approach based on the estimated future cash flows at discount rates that reflect the risk of the community being evaluated. The discounted cash flow approach can be impacted significantly by our estimates of future home sales revenue, home construction costs, and the applicable discount rate, all of which are Level 3 inputs.

For the year ended December 31, 2021 the Company did not recognize any real estate inventory impairments. For the year ended December 31, 2020 the Company recognized inventory impairments of $3.4 million related to two communities in the California segment. In both instances, the Company determined that additional incentives were required to sell the remaining homes at estimated aggregate sales prices below the communities previous carrying values. The fair values for the communities impaired were calculated using discounted cash flow models using discount rates ranging from 7%-10%.

5. Capitalized Interest

Interest is capitalized to real estate inventories and investment in unconsolidated joint ventures during development and other qualifying activities. Interest capitalized as a cost of real estate inventories is included in cost of sales as related inventories are delivered. Interest capitalized to investments in unconsolidated joint ventures is relieved to equity in net income (loss) of unconsolidated joint ventures as related joint venture homes close. For the periods reported, interest incurred, capitalized, and expensed was as follows:

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Related party interest incurred or pushed down	$ 457	$ 10,112	$ 11,115
Other interest incurred	26,750	21,425	24,906
Total interest incurred	27,207	31,537	36,021
Related party interest capitalized	457	10,112	11,115
Other interest capitalized	26,750	21,410	24,906
Total interest capitalized	27,207	31,522	36,021
Previously capitalized related party interest included in cost of sales	$ 11,670	$ 14,110	$ 15,646
Previously capitalized other interest included in cost of sales	21,839	23,816	24,747
Related party interest relieved to equity in net income (loss) of unconsolidated joint ventures	1,250	1,146	1,908
Other interest relieved to equity in net income (loss) from unconsolidated joint ventures	17	16	26
Other interest expensed	32	15	—
Total interest expense included in pretax income (loss)	$ 34,808	$ 39,103	$ 42,327

6. Investment in and Advances to Unconsolidated Joint Ventures

As of December 31, 2021 and 2020, the Company had two unconsolidated joint ventures with ownership interests of 51% and 25% in LS-NJ Port Imperial JV LLC and LS-Boston Point LLC, respectively, and concluded that these joint ventures were VIEs. The Company concluded that it was not the primary beneficiary of the variable interest entities and, accordingly, accounted for these entities under the equity method of accounting. The Company's

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maximum exposure to loss is limited to the investment in the unconsolidated joint venture amounts included on the consolidated balance sheets.

The condensed combined balance sheets for the Company's unconsolidated joint ventures accounted for under the equity method are as follows:

	December 31,	
	2021	2020
	(dollars in thousands)	
Cash and cash equivalents	$ 2,275	$ 2,740
Restricted cash	—	4,870
Real estate inventories	2,515	41,214
Other assets	122	123
Total assets	$ 4,912	$ 48,947
Accounts payable	$ 21	$ 188
Accrued expenses and other liabilities	3,465	3,928
Due to affiliates	787	5,735
Total liabilities	4,273	9,851
Members' capital	639	39,096
Total liabilities and members' capital	$ 4,912	$ 48,947

The condensed combined statements of operations for the Company's unconsolidated joint ventures accounted for under the equity method are as follows:

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Revenues	$ 50,067	$ 37,403	$ 54,633
Cost of sales and expenses	(45,123)	(40,230)	(62,145)
Impairment of real estate inventories	—	(27,094)	(5,800)
Equity in net income from unconsolidated joint ventures	—	—	1,087
Net (loss) income of unconsolidated joint ventures	$ 4,944	$ (29,921)	$ (12,225)
Equity in net (loss) income from investment in unconsolidated joint ventures [1]	$ 1,262	$ (16,418)	$ (7,901)

(1) The equity in net (loss) income of unconsolidated joint ventures consists of the allocation of the Company's proportionate share of income or loss from the unconsolidated joint ventures of $2.5 million income, $15.2 million loss, and $5.9 million loss as well as $1.3 million, $1.2 million, and $2.0 million of expense related to capitalized interest and other costs for the years ended December 31, 2021, 2020, and 2019, respectively.

For the years ended December 31, 2020 and 2019, one of the Company's unconsolidated joint ventures recorded impairment charges of $27.1 million and $5.8 million, respectively, related to slowing absorption and weaker pricing than expected. Based on the Company's ownership percentage of 51%, $13.8 million and $3.0 million of the impairment charges are reflected in the equity in net income (loss) of unconsolidated joint ventures line item in the Company's consolidated statements of operations. For the year ended December 31, 2021, the unconsolidated joint ventures did not recognize any real estate inventory impairments.

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7. Other Assets

Other assets consist of the following:

	December 31,	
	2021	2020
	(dollars in thousands)	
Deferred tax asset, net	$ 7,270	$ 13,248
Property and equipment, net[1]	6,601	6,386
Right-of-use asset	12,593	5,973
Contract assets	6,133	—
Deferred offering costs	—	7,617
Prepaid income taxes	645	1,003
Intangible asset, net	910	1,046
Prepaid expenses	5,309	3,029
Other	4,537	3,267
Total other assets	$ 43,998	$ 41,569

(1) Property and equipment is net of $11.8 million and $8.1 million accumulated depreciation, respectively.

8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2021	2020
	(dollars in thousands)	
Land development and home construction accrual	$ 22,082	$ 25,910
Warranty accrual	15,692	11,730
Accrued compensation and benefits	14,913	10,966
Lease liabilities	13,190	6,396
Sales tax payable	2,885	1,867
Income tax payable	12,079	1,355
Interest payable	2,494	1,134
Deferred revenue	3,969	—
Homebuyer deposits	7,825	17
Other deposits and liabilities	2,595	3,494
Total accrued expenses and other liabilities	$ 97,724	$ 62,869

Changes in the Company's warranty accrual are detailed in the table below:

	December 31,	
	2021	2020
	(dollars in thousands)	
Beginning warranty accrual	$ 11,730	$ 8,693
Warranty provision	6,013	3,843
Warranty payments	(2,051)	(806)
Ending warranty accrual	$ 15,692	$ 11,730

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9. Notes and Other Debts Payable, net

Amounts outstanding under Notes and other debts payable, net consist of the following:

	December 31,	
	2021	2020
	(dollars in thousands)	
Construction loans	$ 82,617	$ 67,757
Line of credit facilities	390,300	199,358
Loans payable	—	5,144
Notes and other debts payable	472,917	272,259
Debt issuance costs	(11,800)	(7,450)
Notes and other debts payable, net	$ 461,117	$ 264,809

On October 6, 2021, the Company entered into a line of credit agreement (the "Credit Agreement"). The Credit Agreement provides for a senior unsecured borrowing of up to $585 million as of December 31, 2021. The Company may increase the borrowing amount up to $850 million, under certain conditions. Borrowings under the Credit Agreement bear interest at LIBOR plus 3.25% or Prime Rate plus 2.75%. The interest rate includes a floor of 3.75%. As of December 31, 2021, the interest rate on the loan was 3.75%. The Credit Agreement matures in October 2024. Concurrently with the entry into the Credit Agreement, the Company paid off the previous lines of credit and all but one of its construction loans. The remaining construction loan has a variable interest rate of LIBOR plus 6.50% with a floor of 8.25%. As of December 31, 2021, the interest rate on the loan was 8.25%. The construction loan matures in September 2022.

On April 15, 2020, Landsea Holdings entered into a Paycheck Protection Program ("PPP") Note evidencing an unsecured loan in the amount of $4.3 million made to the Company under the PPP. The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act and is administered by the U.S. Small Business Association. The proceeds from the PPP Note were restricted to only being used for payroll costs (including benefits), interest on mortgage obligations, rent, utilities and interest on certain other debt obligations. The proceeds from the PPP Note were used in the operation of the Company and therefore the debt was included in the consolidated balance sheets of the Company. We fully utilized the proceeds from this loan to satisfy certain payroll and benefit obligations and applied for relief of the full amount of the loan under the PPP. In June 2021, the PPP loan was forgiven and the liability removed from the Company's consolidated balance sheets. The forgiveness was recorded as a gain on debt forgiveness and is included in other income (expense), net in the consolidated statements of operations of the Company.

The Company's loans have certain financial covenants, such as requirements for the Company to maintain a minimum liquidity balance, minimum tangible net worth, and leverage and interest coverage ratios. The Company's loans are collateralized by the assets of the Company and contain various representations, warranties, and covenants that are customary for these types of agreements. As of December 31, 2021, the Company was in compliance with all financial loan agreement covenants.

The aggregate maturities of the principal balances of the notes and other debts payable during the five years subsequent to December 31, 2021 are as follows *(dollars in thousands)*:

2022	$ 82,617
2023	—
2024	390,300
Thereafter	—
	$ 472,917

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10. Commitments and Contingencies

Legal—The Company is subject to various legal and regulatory actions that arise from time to time and may be subject to similar or other claims in the future. In addition, the Company is currently involved in various other legal actions and proceedings. The Company is currently unable to estimate the likelihood of an unfavorable result in any such proceeding that could have a material adverse effect on our results of operations, financial position, or liquidity.

The Company's insurance companies agreed in the fourth quarter of 2021 to fund $14.9 million to cover the Company's portion of a settlement resolving litigation involving a wrongful death caused by a former employee. The insurers have reserved the right to later seek recovery for some or all of the amounts paid in connection with the settlement of the case. While the insurance companies have not notified the Company that they will assert such a claim, they may do so in the future. At this time the Company is not able to estimate the amount of any such claim.

Performance Obligations—In the ordinary course of business, and as part of the entitlement and development process, the Company's subsidiaries are required to provide performance bonds to assure completion of certain public facilities. The Company had $94.7 million and $78.0 million of performance bonds outstanding at December 31, 2021 and 2020, respectively.

Land Purchase Contracts—The Company enters into land purchase contracts to acquire land for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land at a future point in time with predetermined terms. Under the terms of some of the purchase contracts, the deposits are not refundable in the event the Company elects to terminate the contract. Land purchase contract deposits and capitalized pre-acquisition costs are expensed when the Company believes it is probable that it will not acquire the property under contract and will not be able to recover those costs through other means.

As of December 31, 2021, the Company had total deposits of $63.6 million, of which none are refundable, related to contracts to purchase land and lots with a total remaining purchase price of approximately $399.1 million, net of deposits. The majority of land and lots under contract are currently expected to be purchased within the next four years.

Operating Leases—The Company has various operating leases, most of which relate to office facilities and model homes. Maturities of lease liabilities under the noncancelable operating leases in effect at December 31, 2021 were as follows *(dollars in thousands)*:

2022	$	4,628
2023		3,499
2024		2,363
2025		1,534
2026		1,241
Thereafter		996
Total lease payments		14,261
Less: Discount		(1,071)
Present value of lease liabilities	$	13,190

During the year ended December 31, 2021 the Company sold model homes and immediately leased these models back for up to two years. The Company recognized homes sales revenue and lot sales and other revenue of $35.0 million and $3.2 million, respectively, during the year ended December 31, 2021. Corresponding home cost of sales and lot and other cost of sales of $26.1 million and $3.0 million, respectively, were also recognized during the same period. All of the leases from the sale-leasebacks are accounted for as operating leases, and are now reflected as part of the Company's right-of-use assets and lease liabilities in the accompanying consolidated balance sheets. Certain of these sales were to a related party, refer to *Note 11 - Related Party Transactions* for further detail.

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Operating lease expense for the years ended December 31, 2021, 2020, and 2019 was $1.9 million, $2.0 million, and $1.8 million, respectively, and is included in general and administrative expense on the consolidated statements of operations.

The Company primarily enters into operating leases for the right to use office space, model homes, and computer and office equipment, which have lease terms that generally range from 1 to 7 years and often include one or more options to renew. The weighted average remaining lease term as of December 31, 2021 and 2020 was 4.1 years and 4.4 years, respectively. Renewal terms are included in the lease term when it is reasonably certain the option will be exercised.

The Company established a right-of-use asset and a lease liability based on the present value of future minimum lease payments at the later of January 1, 2019, the commencement date of the lease or, if subsequently modified, the date of modification for active leases. As the rate implicit in each lease is not readily determinable, the Company's incremental borrowing rate is used in determining the present value of future minimum payments as of the commencement date. The weighted average rate as of December 31, 2021 and 2020 was 3.8% and 5.9%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of December 31, 2021, the Company had $12.6 million and $13.2 million recognized as a right-of-use asset and lease liability, respectively, which are presented on the consolidated balance sheet within other assets and accrued expenses and other liabilities, respectively. As of December 31, 2020, the Company had $6.0 million and $6.4 million recognized as a right-of-use asset and lease liability, respectively.

11. Related Party Transactions

Following the Merger, the Company continues to pay for certain costs on behalf of its former parent and current majority shareholder as the two companies' respective processes are separated. The Company records a due from affiliate balance for all such payments. As of December 31, 2021 and 2020, the Company had a net balance due from affiliates of $2.1 million and $0.3 million, respectively, related to these payments.

In July 2021, the Company entered into a landbank agreement for a project in its California segment with a related party. The Company will make regular payments to the related party based on an annualized rate of 7% of the undeveloped land costs while the land is developed and will purchase the lots at a predetermined price of $28.9 million at the Company's discretion. The total amount of interest payments made during 2021 was $0.4 million. No payments have been made to purchase developed lots from the related party during the year ended December 31, 2021.

The Company sold model homes to a related party for total consideration of $15.2 million in December 2021. From this transaction, the Company recognized homes sales revenue and lot sales and other revenue of $10.8 million and $3.2 million, respectively, during the year ended December 31, 2021. Corresponding home cost of sales and lot and other cost of sales of $8.8 million and $3.0 million, respectively, were also recognized during the same period. As part of this transaction, the Company leased these models back and had right-of-use asset and lease liability balances of $2.0 million and $2.0 million, respectively, as of December 31, 2021 related to the model home sales.

On June 30, 2020, the Company transferred its interest in a consolidated real estate joint venture that was previously included in the Metro New York segment to Landsea Holdings. The interest was removed from the consolidated financial statements of the Company on a prospective basis. The real estate joint venture had net assets at the date of transfer of $28.9 million and a noncontrolling interest of $1.2 million as follows *(dollars in thousands)*:

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Assets Transferred		
Cash	$	338
Real estate inventories		49,705
Other assets		174
Total assets	$	50,217
Liabilities Transferred		
Accounts payable	$	1,416
Construction loan		17,825
Accrued expenses and other liabilities		2,102
Total liabilities		21,343
Net assets transferred		28,874
Noncontrolling interest transferred	$	1,242

In connection with the Merger, we transferred a deferred tax asset ("DTA") to Landsea Holdings, our majority shareholder, of $12.1 million. The DTA represented the deferred tax on interest expensed through cost of sales from a related party loan that remained with Landsea Holdings after the Merger.

12. Income Taxes

The Company historically reported income taxes on the consolidated income tax returns of Landsea Holdings since it has historically been a wholly owned subsidiary of Landsea Holdings. Subsequent to the Merger, the Company will file standalone income tax returns. The income tax provision and related balances in these consolidated financial statements have been calculated as if the Company filed a separate tax return for all periods and was operating as a separate business from Landsea Holdings. Under this method, the Company determines its income tax provision as if the Company filed a separate income tax return. The Company does not have tax sharing agreements with the other members within the consolidated Landsea Holdings group. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the Company's actual tax balances.

The (benefit) provision for income taxes are as follows:

	Year Ended December 31,					
	2021		2020		2019	
	(dollars in thousands)					
Current:						
Federal	$	11,507	$	833	$	4,766
State		5,314		1,104		2,505
Current tax provision		16,821		1,937		7,271
Deferred:						
Federal		(2,425)		(3,602)		(705)
State		(401)		(1,416)		(407)
Deferred tax benefit		(2,826)		(5,018)		(1,112)
Total income tax (benefit) provision, net	$	13,995	$	(3,081)	$	6,159

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The provision for income taxes varies from the U.S. federal statutory rate. The following reconciliation shows the significant differences in the tax at statutory and effective rates:

	Year Ended December 31,		
	2021	2020	2019
Federal income tax expense	21.0 %	21.0 %	21.0 %
State income tax expense, net of federal tax effect	5.6	5.7	6.9
Permanent differences	(0.6)	(0.3)	0.1
162(m) limitation	(1.3)	—	—
PPP loan	1.8	—	—
Energy efficient home credit	(6.2)	5.6	(5.4)
Return to provision adjustment	0.4	(3.5)	(1.2)
Rate change	0.1	(3.2)	0.2
Change of valuation allowance	0.2	—	—
Effective tax rate	21.0 %	25.3 %	21.6 %

The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2021 is primarily related to state income taxes, net of federal income tax benefits, offset by the energy efficient home credit. The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2020 is primarily related to state income taxes net of federal income tax benefits, a limitation related to section 162(m), the forgiveness of the PPP loan, and the energy efficient home credit. The energy efficient home credit is an increase to our income tax benefit in 2020 compared to a decrease to our income tax expense in 2021 and 2019. The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2019 is primarily related to state income taxes net of federal income tax benefits, partially offset by the energy efficient home credit.

At December 31, 2021 and 2020, the Company did not have any gross uncertain tax positions or unrecognized tax benefits, and did not require an accrual for interest or penalties. The Company files income tax returns in the U.S. federal jurisdiction and in the states of Arizona, California, Massachusetts, New Jersey, New York, and Pennsylvania and will start filing in Florida and Texas for tax year 2021.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of

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significant temporary differences that give rise to the deferred tax assets, net of deferred tax liabilities, are as follows:

	December 31,	
	2021	2020
	(dollars in thousands)	
Deferred tax assets		
Accrued expenses	$ 3,764	$ 15,208
Lease liability	3,479	1,748
Allowance, reserves, and other	1,118	225
Net operating loss and credit carryforward	87	25
Stock compensation	905	—
UNICAP	1,677	—
Goodwill and intangibles	606	—
Basis difference in investments	108	—
Deferred tax asset	11,744	17,206
Less: Valuation allowance	(128)	—
Deferred tax asset, net	11,616	17,206
Deferred tax liabilities		
Right-of-use asset	(3,321)	(1,635)
Basis difference in fixed assets and intangible assets	(1,025)	(1,457)
Basis difference in investments	—	(866)
Deferred tax liability	(4,346)	(3,958)
Net deferred tax asset	$ 7,270	$ 13,248

Based on the Company's policy on deferred tax valuation allowances as discussed in *Note 2, Summary of Significant Accounting Policies* and its analysis of positive and negative evidence, management believed that there was enough evidence, including current year income and projections of future taxable income, for the Company to conclude that it was more likely than not that it would realize all of its deferred tax assets as of December 31, 2021 except for certain deferred tax assets related to one of the Company's consolidated joint ventures.

At December 31, 2021, the Company had $0.3 million federal NOL carryforwards, and various state NOL carryforwards totaling $0.4 million. The federal NOLs may be carried forward indefinitely. The state NOLs may be carried forward up to 20 years to offset future taxable income and begin to expire in 2035.

The statute of limitations is three years for federal income tax purposes and four years for state income tax purposes. The Company's federal and state tax returns from 2013 and forward are open for examination under statute due to losses claimed in those periods utilized in 2018 and 2017.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act, among other things, includes certain income tax provisions for individuals and corporations; however, these benefits do not impact the Company's current tax provision.

13. Segment Reporting

The Company is engaged in the acquisition, development, and sale of homes and lots in multiple states across the country. The Company is managed by geographic location and each of the five geographic regions targets a wide range of buyer profiles including: first time, move-up, and luxury homebuyers.

Management of the five geographic regions report to the Company's chief operating decision makers ("CODMs"), the Chief Executive Officer and Chief Operating Officer of the Company. The CODMs review the results of

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operations, including total revenue and pretax income (loss) to assess profitability and to allocate resources. Accordingly, the Company has presented its operations as the following five reportable segments:

- Arizona
- California
- Florida
- Metro New York
- Texas

The Company has also identified the Corporate operations as a non-operating segment, as it serves to support the homebuilding operations through functional departments such as executive, finance, treasury, human resources, accounting and legal. The majority of the corporate personnel and resources are primarily dedicated to activities relating to the operations and are allocated based on each segment's respective percentage of assets, revenue, and dedicated personnel.

The following table summarizes total revenue and pretax income (loss) by segment:

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Revenue			
Arizona	$ 340,767	$ 320,691	$ 40,024
California	557,182	413,917	590,964
Florida	93,632	—	—
Metro New York[(1)]	—	—	—
Texas	$ 31,723	$ —	$ —
Total	$ 1,023,304	$ 734,608	$ 630,988
Pretax income (loss)			
Arizona	$ 25,681	$ 9,325	$ (3,927)
California	61,073	10,131	53,019
Florida	(492)	—	—
Metro New York[(1)]	(2,154)	(19,764)	(13,225)
Texas	(439)	—	—
Corporate	(16,939)	(11,857)	(7,317)
Total	$ 66,730	$ (12,165)	$ 28,550

(1) The Metro New York reportable segment does not currently generate any revenue. Included in pretax income (loss) is $1.3 million of income, $16.4 million loss, and $7.9 million loss from unconsolidated joint ventures for the years ended December 31, 2021, 2020 and 2019, respectively.

The following table summarizes total assets by segment:

	December 31,	
	2021	2020
	(dollars in thousands)	
Assets		
Arizona	$ 360,598	$ 268,141
California	400,292	409,705
Florida	102,158	—
Metro New York	124,962	120,168
Texas	35,984	—
Corporate	241,520	97,750
Total	$ 1,265,514	$ 895,764

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Included in the Corporate segment assets is cash and cash equivalents of $218.4 million and $53.6 million as of December 31, 2021 and 2020, respectively.

As of December 31, 2021, goodwill of $20.7 million and $3.8 million was allocated to the Arizona and Florida segments, respectively. As of December 31, 2020 $20.7 million was allocated to the Arizona segment.

14. Fair Value

ASC 820 defines fair value as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and requires assets and liabilities carried at fair value to be classified and disclosed in the following three categories:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date.

Level 3 — Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date.

The following table presents carrying values and estimated fair values of financial instruments:

		December 31, 2021		December 31, 2020	
	Hierarchy	Carrying	Fair Value	Carrying	Fair Value
		(dollars in thousands)			
Liabilities:					
Construction loans [(1)]	Level 2	$ 82,617	$ 82,617	$ 67,757	$ 67,757
Revolving credit facility [(1)]	Level 2	$ 390,300	$ 390,300	$ 199,358	$ 199,358
Loans payable [(2)]	Level 2	$ —	$ —	$ 5,144	$ 5,144
Warrant liability	Level 3	$ 9,185	$ 9,185	$ —	$ —

(1) Carrying amount approximates fair value due to the variable interest rate terms of these loans. Carrying value excludes any associated deferred loan costs.
(2) Carrying amount approximates fair value due to recent issuances of debt having similar characteristics, including interest rate. Carrying value excludes any associated deferred loan costs.

The carrying values of restricted cash, receivables, deposits, and other assets as well as accounts payable and accrued liabilities approximate the fair value for these financial instruments based upon an evaluation of the underlying characteristics, market data and because of the short period of time between origination of the instruments and their expected realization. The fair value of cash and cash equivalents is classified in Level 1 of the fair value hierarchy.

Non-financial assets such as real estate inventories are measured at fair value on a nonrecurring basis using a discounted cash flow approach with Level 3 inputs within the fair value hierarchy. This measurement is performed when events and circumstances indicate the asset's carrying value is not fully recoverable. During the year ended December 31, 2021, we determined that none of our real estate inventories required impairment. In 2020, we determined that real estate inventories with a carrying value of $33.0 million within two communities in our California segment were not expected to be fully recoverable. Accordingly, we recognized impairment charges of an aggregate $3.4 million to reflect the estimated fair value of the communities of $29.6 million.

The Private Placement Warrants are measured at fair value on a recurring basis using a Black-Scholes option pricing model. The significant unobservable input as of December 31, 2021 was the volatility rate implied from the public warrants, which are exchanged on an open market, of 45.5%.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

The following table reconciles the beginning and ending balances for the Level 3 recurring fair value measurements during the periods presented:

	December 31,	
	2021	2020
	(dollars in thousands)	
Warrant liability		
Beginning balance[1]	$ 11,275	$ —
Changes in fair value	(2,090)	—
Ending balance	$ 9,185	$ —

(1) The beginning balance for the year ended December 31, 2021 represents the balance as of January 7, 2021, the Closing Date of the Merger.

15. Stock-Based Compensation

During 2018, Landsea Holdings created a long-term incentive compensation program designed to align the interests of Landsea Holdings, the Company, and its executives by enabling key employees to participate in the Company's future growth through the issuance of phantom equity awards. Landsea Holdings' phantom equity awards issued on or after January 1, 2018 were accounted for pursuant to ASC 710, Compensation, as the value was not based on the shares of comparable public entities or other equity, but was based on the book value of Landsea Holdings' equity. Landsea Holdings measured the value of phantom equity awards on a quarterly basis using the intrinsic value method and pushed down the expense to the Company as the employees participating in the long-term incentive compensation program primarily benefit the Company. In connection with the Merger all of the phantom equity awards vested and were either paid out in cash or were converted to stock of LHC and the program was terminated. The Company recorded $2.7 million in general and administrative expenses in the year ended December 31, 2021 related to the accelerated vesting of the phantom awards. The Company paid cash of $2.9 million for the phantom stock awards and granted 0.2 million shares with a grant date value of $1.9 million at the time of the Merger.

The Company adopted the Landsea Homes Corporation 2020 Stock Incentive Plan (the "Plan") which provides for the grant of options, stock appreciation rights, restricted stock units ("RSUs"), and restricted stock, any of which may be performance-based, as determined by the Company's Compensation Committee. The Company reserved a total of 6.0 million shares of our common stock for issuance under the Plan. As of December 31, 2021, approximately 5.1 million shares of common stock remained available for issuance under the Plan.

The Company granted long term performance share unit awards ("PSUs") to certain executives under the Plan. The PSUs are earned based upon the Company's performance over three years, measured by adjusted earnings per share ("EPS") over fiscal years 2021, 2022 and 2023 (the "Performance Periods"). Each award is conditioned upon the Company achieving adjusted EPS targets over the Performance Periods. Target awards of 100% will be earned if the Company's adjusted EPS meets set thresholds in each of the Performance Periods ("Target Goals"). If adjusted EPS is below or above the target thresholds by defined amounts, an award may still be earned in a range between 50%-200% of the Target Goals.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

The following table presents a summary of the Company's nonvested PSUs and RSUs as of December 31, 2021 and changes during the year then ended:

	Year Ended December 31,								
	2021			2020			2019		
	Awards	Weighted Average Grant Date Fair Value		Awards	Weighted Average Grant Date Fair Value		Awards	Weighted Average Grant Date Fair Value	
	(in thousands, except fair value amounts)								
Outstanding, beginning of the year	—	$	—	—	$	—	—	$	—
Granted	886		9.45	—		—	—		—
Vested	(118)		9.55	—		—	—		—
Forfeited	—		—	—		—	—		—
Outstanding, end of the year	768	$	9.43	—	$	—	—	$	—

Most awards vest ratably over three years; however, some have been granted with different vesting schedules. The Company records actual forfeitures related to unvested awards upon employee terminations.

Stock-based compensation expense related to our RSUs and PSUs of $5.8 million during the year ended December 31, 2021 is included in general and administrative expenses on our consolidated statements of operations. The Company did not grant any RSUs or PSUs and did not recognize any stock-based compensation expense during the years ended December 31, 2020 and 2019.

A summary of our outstanding RSUs and PSUs, assuming current estimated level of performance achievement, are as follows:

	December 31, 2021	
	(in thousands, except years)	
Unvested units		768
Remaining cost on unvested units	$	5,102
Remaining vesting period		3.21 years

Stock-based compensation expense associated with the outstanding RSUs and PSUs is measured using the grant date fair value. The expense associated with the RSUs also incorporates the estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends.

16. Stockholders' Equity

The Company's authorized capital stock consists of 500.0 million shares of common stock with a par value of $0.0001 per share, and 50.0 million shares of preferred stock with a par value of $0.0001 per share. As of December 31, 2021, there were 46.3 million shares of common stock issued and outstanding, and no shares of preferred stock outstanding.

On January 7, 2021, the Merger was consummated pursuant to the Merger Agreement. Prior to the Merger, LF Capital was authorized to issue, and had outstanding, two classes of common shares, Class A and Class B. Upon the consummation of the Merger, all issued and outstanding shares of Class B common stock converted to shares of Class A. Public stockholders were offered the opportunity to redeem, upon closing of the Merger, shares of Class A common stock for cash. All outstanding shares of common stock are validly issued, fully paid and nonassessable. Following the Merger, the Company's equity was retroactively adjusted to reflect the 32.6 million shares of common stock issued to Landsea Holdings.

As of December 31, 2021 there were 21,025,000 outstanding Warrants, consisting of 15,525,000 public warrants and 5,500,000 Private Placement Warrants. At the time of the Merger, the Warrant Agreement was amended so that

Landsea Homes Corporation
Notes to Consolidated Financial Statements

each public warrant is exercisable at $1.15 into one tenth share of common stock. As part of the amendment, each holder of the public warrants received $1.85 for a total of $28.7 million paid by the Company upon closing of the Merger. Each Private Placement Warrant is exercisable at $11.50 into one share of common stock. The Warrants will expire five years after the completion of the Merger or earlier upon redemption or liquidation.

The Private Placement Warrants are identical to the public warrants, except for the rate of exchange upon exercise. Additionally, the Private Placement Warrants will be non-redeemable as long as they are held by the initial purchasers or such purchasers' permitted transferees. If the Private Placement Warrants are held by someone other than the initial stockholders or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the public warrants, except that they will retain their rate of exchange as one-for-one.

The Company may call the public warrants for redemption (except with respect to the Private Placement Warrants):

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon a minimum of 30 days' prior written notice of redemption; and
- if, and only if, the last reported closing price of the shares equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the public warrants for redemption, management will have the option to require all holders that wish to exercise the public warrants to do so on a "cashless basis," as described in the Warrant Agreement.

The exercise price and number of common shares issuable upon exercise of the Warrants may be adjusted in certain circumstances including in the event of a share dividend, or recapitalization, reorganization, merger or consolidation. However, the Warrants will not be adjusted for issuance of common shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Warrants' shares. Accordingly, the Warrants may expire worthless.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

17. Earnings Per Share

The following table sets forth the computation of basic and diluted EPS for the years ended December 31, 2021, 2020, and 2019:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands, except share and per share amounts)		
Numerator			
Net income (loss) attributable to Landsea Homes Corporation	$ 52,786	$ (8,951)	$ 17,200
Less: undistributed earnings allocated to participating shares	(1,161)	—	—
Net income (loss) attributable to common stockholders	$ 51,625	$ (8,951)	$ 17,200
Denominator			
Weighted average common shares outstanding - basic	46,193,166	32,557,303	32,557,303
Adjustment for weighted average participating shares outstanding	(994,444)	—	—
Adjusted weighted average common shares outstanding under two class method - basic	45,198,722	32,557,303	32,557,303
Dilutive effect of warrants	—	—	—
Dilutive effect of share-based awards	51,996	—	—
Adjusted weighted average common shares outstanding under two class method - diluted	45,250,718	32,557,303	32,557,303
Earnings per share			
Basic	$ 1.14	$ (0.27)	$ 0.53
Diluted	$ 1.14	$ (0.27)	$ 0.53

Warrants are excluded from the calculation of diluted EPS as they are antidilutive. We excluded 7.1 million common stock unit equivalents from our diluted EPS during the year ended December 31, 2021.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

18. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Year Ended December 31,		
	2021	2020	2019
		(dollars in thousands)	
Supplemental disclosures of cash flow information			
Interest paid, net of amounts capitalized	$ 32	$ 15	$ —
Income taxes paid	$ 7,575	$ 7,309	$ 14,152
Supplemental disclosures of non-cash investing and financing activities			
Transfer of deferred tax asset to Landsea Holdings	$ 11,785	$ —	$ —
Conversion of deferred offering costs to additional paid-in-capital	$ 9,229	$ —	$ —
Amortization of deferred financing costs capitalized to real estate inventories	$ 4,173	$ 3,753	$ 3,524
Right-of-use assets obtained in exchange for operating lease liabilities for new or modified operating leases	$ 6,688	$ 1,053	$ 3,208
Distribution of real estate joint venture to Landsea Holdings, net of cash provided	$ —	$ 27,294	$ —
Business acquisition holdback	$ —	$ 2,000	$ —
Amortization of prepaid interest	$ —	$ —	$ 2,994
Cash, cash equivalents, and restricted cash reconciliation			
Cash and cash equivalents	$ 342,810	$ 105,778	$ 154,043
Restricted cash	443	4,270	2,335
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 343,253	$ 110,048	$ 156,378

19. Subsequent Events

On January 18, 2022, the Company acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder for an aggregate cash purchase price of $179.2 million. Concurrently with the closing of the acquisition, the Company repaid all $69.3 million in principal of Hanover's outstanding indebtedness. The Company funded the acquisition, including the repayment of Hanover's indebtedness from a combination of cash on hand and borrowings under the Company's existing revolving credit facility. The total assets of Hanover include approximately 20 active communities (unaudited) and 3,800 lots owned and controlled (unaudited). The determination of the purchase accounting is in process as of the date of these consolidated financial statements.

The following is an extract of the audited financial statements of LF Capital for the year ended 31 December 2019, which were prepared in accordance with U.S. GAAP, from the 2019 Annual Report on Form 10-K of LF Capital issued on 24 February 2020.

The 2019 Annual Report on Form 10-K have been published on the website of the U.S. Securities and Exchange Commission (www.sec.gov) and can be accessed at the website address below:

https://www.sec.gov/Archives/edgar/data/1721386/000173112220000201/e1768_10k.htm

BALANCE SHEETS

	31 December	
	2019	**2018**
	US$	*US$*
Assets		
Current assets:		
Cash and cash equivalents	161,405	196,804
Prepaid expenses	304,077	43,214
Total current assets	465,482	240,018
Marketable securities held in Trust Account	162,019,909	159,718,098
Total assets	**162,485,391**	**159,958,116**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	121,516	108,292
Accrued expenses	30,610	6,500
Note payable — related parties	750,000	—
Franchise tax payable	40,000	200,000
Total current liabilities	942,126	314,792
Deferred tax liabilities	128,105	—
Deferred underwriting commissions	5,433,750	5,433,750
Total liabilities	6,503,981	5,748,542
Commitments		
Class A common stock, $0.0001 par value; 14,461,820 and 14,500,444 shares subject to possible redemption at $10.44 and $10.29 per share at 31 December 2019 and 2018, respectively	150,981,401	149,209,569
Stockholders' Equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued and outstanding at 31 December 2019 and 2018, respectively	—	—
Class A common stock, $0.0001 par value; 100,000,000 shares authorized; 1,063,180 and 1,024,556 shares issued and outstanding (excluding 14,461,820 and 14,500,444 shares subject to possible redemption) at 31 December 2019 and 2018, respectively	106	102

	31 December	
	2019	**2018**
	US$	*US$*
Convertible Class B common stock, $0.0001 par value; 15,000,000 shares authorized; 3,881,250 shares issued and outstanding at 31 December 2019 and 2018, respectively	388	388
Additional paid-in capital	2,757,412	4,529,248
Retained earnings	2,242,103	470,267
Total stockholders' equity	5,000,009	5,000,005
Total Liabilities and Stockholders' Equity	**162,485,391**	**159,958,116**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS

	For the Years Ended 31 December	
	2019	**2018**
	US$	*US$*
General and administrative expenses	826,307	586,284
Franchise tax expense	200,000	198,617
Loss from operations	(1,026,307)	(784,901)
Interest earned on investments and marketable securities	3,473,997	1,688,934
Income before income tax expense	2,447,690	904,033
Income tax expense	675,854	311,183
Net income	1,771,836	592,850
Weighted average shares outstanding of Class A common stock	15,525,000	15,525,000
Basic and diluted net income per share, Class A	0.17	0.08
Weighted average shares outstanding of Class B common stock	3,881,250	3,881,250
Basic and diluted net loss per share, Class B	(0.21)	(0.15)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock				Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Class A		Class B				
	Shares	Amount	Shares	Amount			
		US$		*US$*	*US$*	*US$*	*US$*
Balance — 31 December 2017	**—**	**—**	**3,881,250**	**388**	**24,612**	**(122,583)**	**(97,583)**
Sale of units in initial public offering	15,525,000	1,553	—	—	155,248,447	—	155,250,000
Offering costs	—	—	—	—	(9,295,693)	—	(9,295,693)
Sale of private placement warrants to Sponsor in private placement	—	—	—	—	7,760,000	—	7,760,000
Common stock subject to possible redemption	(14,500,444)	(1,451)	—	—	(149,208,118)	—	(149,209,569)
Net income	—	—	—	—	—	592,850	592,850
Balance — 31 December 2018	**1,024,556**	**102**	**3,881,250**	**388**	**4,529,248**	**470,267**	**5,000,005**
Common stock subject to possible redemption	38,624	4	—	—	(1,771,836)	—	(1,771,832)
Net income	—	—	—	—	—	1,771,836	1,771,836
Balance — 31 December 2019	**1,063,180**	**106**	**3,881,250**	**388**	**2,757,412**	**2,242,103**	**5,000,009**

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	For the Years Ended 31 December	
	2019	**2018**
	US$	*US$*
Cash Flows from Operating Activities:		
Net income	1,771,836	592,850
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred tax liabilities	128,105	—
Interest earned on investments and marketable securities held in Trust Account	(3,473,528)	(1,687,599)
Changes in operating assets and liabilities:		
Prepaid expenses	(260,863)	(43,214)
Accounts payable	13,224	14,032
Accrued expenses	24,110	(7,100)
Franchise tax payable	(160,000)	200,000
Net cash used in operating activities	(1,957,116)	(931,031)
Cash Flows from Investing Activities:		
Principal deposited in Trust Account	—	(158,355,000)
Interest released from Trust Account	1,171,717	324,501
Net cash provided by (used in) investing activities	1,171,717	(158,030,499)
Cash Flows from Financing Activities:		
Proceeds from note payable to related parties	750,000	260,000
Repayment of note payable to related parties	—	(460,000)
Proceeds received from initial public offering	—	155,250,000
Offering costs	—	(3,671,204)
Proceeds received from private placement	—	7,760,000
Net cash provided by financing activities	750,000	159,138,796
Net (decrease) increase in cash	(35,399)	177,266
Cash and cash equivalents — beginning of the period	196,804	19,538
Cash and cash equivalents — end of the period	**161,405**	**196,804**

	For the Years Ended 31 December	
	2019	2018
	US$	*US$*
Supplemental disclosure of non-cash investing and financing activities:		
Offering costs included in accounts payable	—	67,142
Deferred underwriting commissions in connection with the initial public offering	—	5,433,750
Reclassification of deferred offering costs to paid-in capital	—	178,283
Change in Class A common stock subject to possible redemption	1,771,832	149,209,569
Supplemental cash flow disclosure:		
Cash paid for income taxes	811,467	—

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

LF Capital Acquisition Corp. (the "Company") is a blank check company incorporated in the state of Delaware on 29 June 2017. The Company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses that the Company has not yet identified ("Business Combination"). Although the Company is not limited to a particular industry or geographic region for purposes of consummating a Business Combination, the Company intends to capitalize on the ability of its management team to focus its search for a target business in the commercial banking and financial technology industries.

All activity through 31 December 2019 relates to the Company's formation and the initial public offering ("Initial Public Offering"), and, since the closing of the Initial Public Offering, a search for a Business Combination candidate. The Company has selected 31 December as its fiscal year end.

The registration statement for the Company's Initial Public Offering was declared effective on 19 June 2018. On 22 June 2018, the Company consummated its Initial Public Offering of 15,525,000 units (each, a "Unit" and collectively, the "Units"), including 2,025,000 Units issued pursuant to the exercise in full of the underwriters' over-allotment option, at $10.00 per Unit, generating gross proceeds of $155.25 million, and incurring offering costs of approximately $9.3 million, inclusive of $5.4338 million in deferred underwriting commissions (Note 3).

Simultaneously with the closing of the Initial Public Offering, the Company consummated the private placement ("Private Placement") of 7,760,000 warrants (each, a "Private Placement Warrant" and collectively, the "Private Placement Warrants") at a price of $1.00 per Private Placement Warrant in a private placement to the Sponsor, Level Field Capital, LLC ("Sponsor") and certain funds and accounts managed by subsidiaries of BlackRock, Inc. (collectively, "anchor investor"), generating gross proceeds of $7.76 million (Note 4).

Upon the closing of the Initial Public Offering and Private Placement, $158.355 million ($10.20 per Unit) of the net proceeds of the sale of the Units in the Initial Public Offering and the Private Placement was placed in a trust account ("Trust Account") and is required to be invested in U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act, with a maturity of 180 days or less or in any open-ended investment company that holds itself out as a money market fund selected by the Company meeting the conditions of paragraphs (d)(2), (d)(3) and (d)(4) of Rule 2a-7 of the Investment Company Act, as determined by the Company, until the earlier of: (i) the completion of a Business Combination and (ii) the distribution of the Trust Account as described below.

The Company's management has broad discretion with respect to the specific application of the net proceeds of its Initial Public Offering and Private Placement Warrants, although substantially all of the net proceeds are intended to be applied generally toward consummating a Business Combination. The Company's initial Business Combination must be with one or more target businesses that together have an aggregate fair market value of at least 80% of the assets held in the Trust Account (excluding the deferred underwriting commissions and taxes payable on income earned on the trust account) at the time of the agreement to enter into the initial Business Combination. However, the Company will only complete a Business Combination if the post-transaction company owns or acquires 50% or more of the outstanding voting securities of the target or otherwise acquires a controlling interest in the target sufficient for it not to be required to register as an investment company under the Investment Company Act 1940, as amended, or the Investment Company Act.

The Company will provide its shareholders of Public shares ("Public Shareholders") with the opportunity to redeem all or a portion of their Public shares upon the completion of a Business Combination either (i) in connection with a shareholder meeting called to approve the Business Combination or (ii) by means of a tender offer. The decision as to whether the Company will seek shareholder approval of a Business Combination or conduct a tender offer will be made by the Company, solely in its discretion. If, however, shareholder approval of the transaction is required by law or stock exchange listing requirement, or the Company decides to obtain shareholder approval for business or other legal reasons, it will: (i) conduct the redemptions in conjunction with a proxy solicitation pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which regulates the solicitation of proxies, and not pursuant to the tender offer rules; and (ii) file proxy materials with the Securities and Exchange Commission ("SEC"). The public shareholders will be entitled to

redeem their Public shares for a pro rata portion of the amount then in the Trust Account (initially approximately $10.20 per share, plus any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company to pay its tax obligations, less up to $100,000 of interest to pay dissolution expenses).

The per-share amount to be distributed to public shareholders who redeem their Public shares will not be reduced by the deferred underwriting commissions the Company will pay to the underwriters (as discussed in Note 6). These Public shares have been recorded at redemption value and classified as temporary equity upon the completion of the Initial Public Offering, in accordance with Accounting Standards Codification (''ASC'') Topic 480 ''Distinguishing Liabilities from Equity.'' In such case, the Company will proceed with a Business Combination if the Company has net tangible assets of at least $5,000,001 upon such consummation of a Business Combination and a majority of the shares voted are voted in favor of the Business Combination. If a shareholder vote is not required by the law and the Company does not decide to hold a shareholder vote for business or other legal reasons, the Company will, pursuant to its Amended and Restated Articles of incorporation, conduct the redemptions pursuant to the tender offer rules of the SEC, and file tender offer documents with the SEC prior to completing a Business Combination. If, however, a shareholder approval of the transactions is required by law, or the Company decides to obtain shareholder approval for business or legal reasons, the Company will offer to redeem shares in conjunction with a proxy solicitation pursuant to the proxy rules and not pursuant to the tender offer rules. Additionally, each public shareholder may elect to redeem their Public shares irrespective of whether they vote for or against the proposed transaction. If the Company seeks shareholder approval in connection with a Business Combination, the initial stockholders have agreed to vote their founder shares (and any Public shares purchased during or after the Initial Public Offering in favor of a Business Combination. In addition, the initial stockholders have agreed to waive their redemption rights with respect to their founder shares and Public shares in connection with the completion of a Business Combination.

Notwithstanding the foregoing, the Company's Amended and Restated Articles of incorporation provides that a public shareholder, together with any affiliate of such shareholder or any other person with whom such shareholder is acting in concert or as a ''group'' (as defined under Section 13 of the Exchange Act), will be restricted from redeeming its shares with respect to more than an aggregate of 20% or more of the Class A common stock sold in the Initial Public Offering, without the prior consent of the Company.

If the Company is unable to complete a Business Combination on 22 June 2020 (the ''Combination Period''), the Company will (i) cease all operations except for the purpose of winding up, (ii) as promptly as reasonably possible but no more than ten business days thereafter, redeem 100% of the outstanding Public shares which redemption will completely extinguish public stockholders' rights as shareholders (including the right to receive further liquidation distributions, if any), subject to applicable law and (iii) as promptly as reasonably possible following such redemption, subject to the approval of the remaining shareholders and the Company's board of directors, proceed to commence a voluntary liquidation and thereby a formal dissolution of the Company, subject in each case to its obligations to provide for claims of creditors and the requirements of applicable law.

In connection with the redemption of 100% of the Company's outstanding Public shares for a portion of the funds held in the Trust Account, each holder will receive a full pro rata portion of the amount then in the Trust Account, plus any pro rata interest earned on the funds held in the Trust Account and not previously released to the Company to pay for its franchise and income taxes (less up to $100,000 of interest to pay dissolution expenses).

The initial stockholders have agreed to waive their liquidation rights with respect to the founder shares if the Company fails to complete a Business Combination within the Combination Period. However, if the initial stockholders should acquire Public shares in or after the Initial Public Offering, they will be entitled to liquidating distributions from the Trust Account with respect to such Public shares if the Company fails to complete a Business Combination within the Combination Period. The underwriters have agreed to waive their rights to their deferred underwriting commission (see Note 6) held in the Trust Account in the event the Company does not complete a Business Combination within the Combination Period and, in such event, such amounts will be included with the funds held in the Trust Account that will be available to fund the redemption of the Company's Public shares. In the event of such distribution, it is possible that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be only $10.20 per share initially held in the Trust Account (or less than that in certain circumstances). In order to protect the amounts held in the Trust Account, the Sponsor has agreed to be liable to the Company, jointly and severally, if and to the extent any claims by a vendor for services rendered or products sold to the Company, or a prospective target business with which the Company has discussed entering into a transaction agreement, reduce the amount of funds in the Trust Account. This liability will not apply with respect to any claims by a third party who executed a waiver of any right, title, interest or claim of any kind in

or to any monies held in the Trust Account or to any claims under the Company's indemnity of the underwriters of the Initial Public Offering against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the ''Securities Act''). Moreover, in the event that an executed waiver is deemed to be unenforceable against a third party, the Sponsor will not be responsible to the extent of any liability for such third-party claims. The Company will seek to reduce the possibility that the Sponsor will have to indemnify the Trust Account due to claims of creditors by endeavoring to have all vendors, service providers (other than the Company's independent auditors), prospective target businesses or other entities with which the Company does business, execute agreements with the Company waiving any right, title, interest or claim of any kind in or to monies held in the Trust Account.

Liquidity

As of 31 December 2019, the Company had approximately $161,000 in its operating bank accounts, and working capital deficit of approximately $477,000.

Subsequent to the consummation of the Initial Public Offering and Private Placement, the Company's liquidity needs have been satisfied through the proceeds from the consummation of the Private Placement not held in Trust Account, interest earned released from the Trust Account to pay for its tax obligations, and loans from the Sponsor. In order to finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company officers and directors may, but are not obligated to, provide the Company Working Capital Loans (see Note 5). The Working Capital Loans will either be repaid upon consummation of a Business Combination, without interest, or, at the lender's discretion, up to $1,500,000 of such Working Capital Loans may be convertible into warrants of the post Business Combination entity at a price of $1.00 per warrant. The warrants would be identical to the Private Placement Warrants. On 4 March 2019, the Company issued a convertible note (''Convertible Note'') to the Sponsor, pursuant to which the Sponsor agreed to provide a Working Capital Loan to the Company of up to $1.5 million. The Company was provided $400,000, $350,000 and $130,000 in loan proceeds on 4 March 2019, 19 August 2019 and 10 January 2020, respectively, for an aggregate amount of $880,000, pursuant to the amended Convertible Note (see Note 5).

In connection with the Company's assessment of going concern considerations in accordance with Financial Accounting Standard Board's Accounting Standards Update (''ASU'') 2014–15, ''Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern'', management has determined that the mandatory liquidation and subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern after 22 June 2020. Management plans to address this uncertainty through the consummation of a Business Combination. However, there is no assurance that the Company will be able to consummate a Business Combination within the Combination Period. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after 22 June 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (''GAAP'') and include all adjustments necessary for the fair presentation of the Company's financial position for the periods presented.

Emerging growth company

The Company is an ''emerging growth company,'' as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart our Business Startups Act of 2012, (the ''JOBS Act''), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when acquired to be cash equivalents.

Marketable Securities

The Company's portfolio of marketable securities is comprised solely of U.S. government securities, within the meaning set forth in Section 2(a)(16) of the Investment Company Act, with a maturity of 180 days or less or in any open-ended investment company that holds itself out as a money market fund selected by the Company meeting the conditions of paragraphs (d)(2), (d)(3) and (d)(4) of Rule 2a-7 of the Investment Company Act, as determined by the Company, classified as trading securities. Trading securities are presented on the balance sheets at fair value at the end of each reporting period. Gains and losses resulting from the change in fair value of these securities is recognized as gains or losses in the accompanying Statements of Operations. The estimated fair values of financial instruments are determined using available market information.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from those estimates.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and marketable securities held for trading. Cash and cash equivalents are maintained in accounts with financial institutions, which, at times may exceed the Federal depository insurance coverage of $250,000. At 31 December 2019 and 2018, the Company had not experienced losses on this account and management believes the Company is not exposed to significant credit risks on such account. The Company's marketable securities portfolio consists of U.S. Treasury Bills and money market funds with an original maturity of 180 days or less.

Fair value of financial instruments

The fair value of the Company's assets and liabilities, which qualify as financial instruments under ASC Topic 820, "Fair Value Measurements and Disclosures," approximates the carrying amounts represented in the accompanying balance sheet, primarily due to their short-term nature. Marketable securities are classified as trading securities and are therefore recognized at fair value. The fair value for trading securities is determined using quoted market prices.

Fair Value Measurements

Fair value is defined as the price that would be received for sale of an asset or paid for transfer of a liability, in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

ASC 820, Fair Value Measurement and Disclosures, requires all entities to disclose the fair value of financial instruments, both assets and liabilities for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of 31 December 2019 and 2018, the recorded values of cash and cash equivalents, prepaid expenses, accounts payable, accrued expenses, and note payable to related parties approximate the fair values due to the short-term nature of the instruments. The Company's portfolio of marketable securities is comprised of an investment in U.S. Treasury Bills and money market fund with an original maturity of 180 days or less. The fair value for trading securities is determined using quoted market prices.

Class A Common Stock Subject to Possible Redemption

The Company accounts for its Class A common stock subject to possible redemption in accordance with the guidance in ASC Topic 480 "Distinguishing Liabilities from Equity." Class A common stock subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. Conditionally redeemable Class A common stock (including Class A common stock that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, shares of Class A common stock are classified as stockholders' equity. The Company's Class A common stock features certain redemption rights that are considered to be outside of the Company's control and subject to the occurrence of uncertain future events. Accordingly, at 31 December 2019 and 2018, 14,461,820 and 14,500,444 shares of Class A common stock subject to possible redemption are presented as temporary equity, outside of the stockholders' equity section of the Company's balance sheets, respectively.

Net Income (Loss) per Share

The Company complies with accounting and disclosure requirements of FASB ASC Topic 260, "Earnings Per Share." Net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding for the period. The Company has not considered the effect of the warrants sold in the Initial Public Offering and Private Placement to purchase an aggregate of 23,285,000 shares of Class A common stock in the calculation of diluted earnings per share, since their inclusion would be anti-dilutive under the treasury stock method. As a result, diluted earnings per share is the same as basic earnings per share for the period.

The Company's statements of operations include a presentation of income (loss) per share for common stock subject to redemption in a manner similar to the two-class method of income (loss) per share. Net income (loss) per share, basic and diluted for Class A common stock is calculated by dividing the interest income earned on the Trust Account, net of applicable taxes, by the weighted average number of shares of Class A common stock outstanding since the initial issuance. Net income (loss) per share, basic and diluted for Class B common stock is calculated by dividing the net income (loss), less income attributable to Class A common stock, by the weighted average number of shares of Class B common stock outstanding for the periods.

Reconciliation of net income (loss) per common stock

The Company's net income is adjusted for the portion of income that is attributable to Class A common stock subject to redemption, as these shares only participate in the earnings of the Trust Account (less applicable taxes) and not the income or losses of the Company. Accordingly, basic and diluted income per Class A common stock is calculated as follows:

	For the Years Ended 31 December	
	2019	**2018**
Net income	1,771,836	592,850
Less: Income attributable to Class A common stock	(2,598,143)	(1,179,134)
Adjusted net loss attributable to Class B common stock	(826,307)	(586,284)
Weighted average shares outstanding of Class A common stock	15,525,000	15,525,000
Basic and diluted net income per share, Class A	0.17	0.08
Weighted average shares outstanding of Class B common stock	3,881,250	3,881,250
Basic and diluted net loss per share, Class B	(0.21)	(0.15)

Income Taxes

The Company follows the asset and liability method of accounting for income taxes under FASB ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that included the enactment date. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

FASB ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination

by taxing authorities. There were no unrecognized tax benefits as of 31 December 2019 and 2018. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at 31 December 2019 and 2018. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company's financial statements.

3. INITIAL PUBLIC OFFERING

On 22 June 2018, the Company sold 15,525,000 Units at a price of $10.00 per Unit in the Initial Public Offering. Each Unit consists of one Class A common stock and one redeemable warrant ("Public Warrant"). Each Public Warrant will entitle the holder to purchase one Class A share at an exercise price of $11.50 per share, subject to adjustment (see Note 7).

4. PRIVATE PLACEMENT

Concurrently with the closing of the Initial Public Offering, the Sponsor and the anchor investor purchased an aggregate of 7,760,000 Private Placement Warrants at $1.00 per warrant ($7.76 million in the aggregate) in a private placement. Among the Private Placement Warrants, 7,209,560 warrants were purchased by the Sponsor and 550,440 warrants were purchased by the anchor investor.

Each Private Placement Warrant is exercisable to purchase one Class A share at $11.50 per share. A portion of the proceeds from the Private Placement Warrants was added to the proceeds from the Initial Public Offering to be held in the Trust Account. If the Company does not complete a Business Combination within the Combination Period, the Private Placement Warrants will expire worthless.

5. RELATED PARTY TRANSACTIONS

Founder Shares

In August 2017, the Company issued an aggregate of 4,312,500 shares of Class B common stock to the Sponsor in exchange for an aggregate capital contribution of $25,000. In February 2018, the Sponsor forfeited 431,250 founder shares, resulting in a decrease in the total number of founder shares from 4,312,500 to 3,881,250. All share amounts presented in the financial statements have been retroactively restated to reflect these share forfeitures. In June 2018, the Sponsor forfeited 267,300 founder shares and the anchor investor purchased 267,300 founder shares for an aggregate purchase price of $1,980. Of the 3,881,250 founder shares, the Sponsor had agreed to forfeit an aggregate of up to 506,250 founder shares to the extent that the over-allotment option is not exercised in full by the underwriters. As of 22 June 2018, the underwriter exercised its over-allotment option in full, hence, these 506,250 shares were no longer subject to forfeiture.

The founder shares will automatically convert into Class A common stock upon the consummation of a Business Combination on a one-for-one basis, subject to adjustment (see Note 7). The initial stockholders agreed not to transfer, assign or sell any of their founder shares until the earliest of (a) one year after the completion of the initial Business Combination, (b) subsequent to the initial Business Combination, if the last reported sale price of the Class A common stock equals or exceeds $12.00 per share (as adjusted) for any 20 trading days within any 30-trading day period commencing at least 150 days after the initial Business Combination, or (C) following the completion of the initial Business Combination, such future date on which the Company completes a liquidation, merger, stock exchange, reorganization or other similar transaction that results in all of our public stockholders having the right to exchange their common stock for cash, securities or other property.

If the anchor investor does not own the number of Public Units equal to 1,336,500 at the time of any stockholder vote with respect to an initial Business Combination or the business day immediately prior to the consummation of the initial Business Combination, the anchor investor will forfeit up to 267,300 founder shares on a pro rata basis. In such case, the Sponsor will repurchase all or a portion of the Private Placement Warrants held by the anchor investor at its original purchase price.

Office Space and Related Support Services

The Company agreed, commencing on the effective date of the Initial Public Offering in June 2018 through the earlier of the Company's consummation of a Business Combination and its liquidation, to pay our Sponsor or an affiliate of our Sponsor a monthly fee of $10,000 for office space, utilities and secretarial and administrative support. The Company incurred $120,000 and $60,000 in expenses in connection with such services during the years ended 31 December 2019 and 2018 as reflected in the accompanying Statements of Operations.

Board Member Agreement

In September 2017, the Company entered into an agreement with B. Prot Conseils, an entity controlled by Mr. Baudouin Prot, one of its board members, pursuant to which the board member will be paid a cash fee of $150,000 per annum in exchange for his service. The agreement was effective as of 1 October 2017 and last until the earlier of December 2019 or the consummation of the Company's business combination. The Company incurred $150,000 in fees related to this service during each of the years ended 31 December 2019 and 2018 in the accompanying Statements of Operations. On 20 February 2020, the Company has agreed to amend its arrangement with Mr. Prot, pursuant to which no further monthly fees will be paid on a current monthly basis to Mr. Prot, however, if the Company completes its acquisition of a target company prior to 18 June 2020, the Company shall pay Mr. Prot $12,500 for each month Mr. Prot has continued to provide services to the Company since 1 January 2020. If the Company does not complete its acquisition of a target company prior to 18 June 2020 then no further fees will be payable to Mr. Prot following 31 December 2019.

Promissory Note — Related Party

The Sponsor had agreed to loan the Company an aggregate of up to $300,000 to be used for the payment of costs related to the Initial Public Offering. In April 2018, the Sponsor amended the note to increase the principal amount to $500,000. The loan was non-interest bearing, unsecured and due on the earlier of 31 December 2018 or the closing of the Initial Public Offering. The Company fully repaid the loan from the proceeds of the Initial Public Offering not being placed in the Trust Account on 22 June 2018.

Related Party Loans

In order to finance transaction costs in connection with a Business Combination, the Sponsor or an affiliate of the Sponsor, or certain of the Company's officers and directors agreed to loan the Company funds as may be required ("Working Capital Loans"). If the Company completes a Business Combination, the Company would repay the Working Capital Loans out of the proceeds of the Trust Account released to the Company. Otherwise, the Working Capital Loans would be repaid only out of funds held outside the Trust Account. In the event that a Business Combination does not close, the Company may use a portion of proceeds held outside the Trust Account to repay the Working Capital Loans but no proceeds held in the Trust Account would be used to repay the Working Capital Loans. The Working Capital Loans would either be repaid upon consummation of a Business Combination, without interest, or, at the lender's discretion, up to $1,500,000 of such Working Capital Loans may be convertible into warrants of the post Business Combination entity at a price of $1.00 per warrant. The warrants would be identical to the Private Placement Warrants.

There were no Working Capital Loans outstanding as of 31 December 2018. On 4 March 2019, the Company issued a convertible note ("Convertible Note") to the Sponsor, pursuant to which the Sponsor agreed to provide a Working Capital Loan to the Company of up to $1.5 million. The Company was provided $400,000 and $350,000 in loan proceeds on 4 March 2019 and 19 August 2019, for an aggregate amount of $750,000, pursuant to the amended Convertible Note. On 10 January 2020, the Company received an additional loan proceed of $130,000 and increased the total amount outstanding under the Convertible Note to $880,000.

6. COMMITMENTS & CONTINGENCIES

Registration Rights

The holders of the founder shares and Private Placement Warrants and warrants that may be issued upon conversion of Working Capital Loans (and any Class A common stock issuable upon the exercise of the Private Placement Warrants and warrants that may be issued upon conversion of Working Capital Loans) will be entitled to registration rights (in the case of the Founder Shares, only after conversion of such shares to shares of Class A common stock) pursuant to a registration rights agreement to be signed prior to or on the effective date of the Initial Public Offering. The holders of these securities are entitled to make up to three demands, excluding short form demands, that the Company register such securities. In addition, the holders have certain "piggy-back" registration rights with respect to registration statements filed subsequent to the consummation of a Business Combination. The Company will bear the expenses incurred in connection with the filing of any such registration statements.

Underwriting Agreement

The underwriters were entitled to an underwriting discount of $0.20 per unit, or $3.105 million in the aggregate, paid upon the closing of the Initial Public Offering. Additionally, a deferred underwriting discount of $0.35 per unit, or $5.434 million in the aggregate will be payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes a Business Combination, subject to the terms of the underwriting agreement.

7. STOCKHOLDERS' EQUITY

Class A Common stock

The Company is authorized to issue 100,000,000 shares of Class A common stock with a par value of $0.0001 per share. At 31 December 2019 and 2018, there were 15,525,000 Class A common stock issued or outstanding, including 14,461,820 and 14,500,444 share of Class A common stock subject to possible redemption, respectively.

Holders of the Class A common stock and holders of the Class B common stock will vote together as a single class on all matters submitted to a vote of our stockholders, except as required by law. Each share of common stock will have one vote on all such matters.

Class B Common stock

The Company is authorized to issue 15,000,000 shares of Class B common stock with a par value of $0.0001 per share. In August 2017, the Company initially issued 4,312,500 Class B common stock. In February 2018, in connection with the decrease of the size of the Initial Public Offering, the Sponsor forfeited 431,250 shares of Class B common stock, resulting in a decrease in the total number of founder shares from 4,312,500 to 3,881,250. All share amounts presented in the financial statements have been retroactively restated to reflect these share forfeitures. Of the 3,881,250 shares of Class B common stock, an aggregate of up to 506,250 shares were subject to forfeiture to the Company by the Sponsor for no consideration to the extent that the underwriters' over-allotment option was not exercised in full. As of 22 June 2018, the underwriter exercised its over-allotment option in full, hence, these 506,250 shares were no longer subject to forfeiture. At 31 December 2019 and 2018, there were 3,881,250 Class B common stock issued or outstanding.

The Class B common stock will automatically convert into Class A common stock on the first business day following the consummation of the initial Business Combination on a one-for-one basis, subject to adjustment. In the case that additional Class A common stock, or equity-linked securities, are issued or deemed issued in excess of the amounts sold in the Initial Public Offering and related to the closing of the initial Business Combination, the ratio at which the Class B common stock shall convert into Class A common stock will be adjusted (unless the holders of a majority of the outstanding shares of Class B common stock agree to waive such adjustment with respect to any such issuance or deemed issuance, including a specified future issuance) so that the number of Class A common stock issuable upon conversion of all Class B common stock will equal, in the aggregate, 20% of the sum of the total number of all common stock outstanding upon the completion of the Initial Public Offering plus all Class A common stock and equity-linked securities issued or deemed issued in connection with the initial Business Combination, excluding any shares or equity-linked securities issued, or to be issued, to any seller in the initial Business Combination.

Preferred Stock

The Company is authorized to issue 1,000,000 preferred shares with a par value of $0.0001 per share. At 31 December 2019 and 2018, there are no preferred shares issued or outstanding.

Warrants

At 31 December 2019 and 2018 there are 23,285,000 outstanding warrants, consisting of 15,525,000 Public Warrants and 7,760,000 Private Placement Warrants, each warrant exercisable at $11.50 into one share of Class A common stock.

The Public Warrants will become exercisable on the later of (a) 30 days after the completion of a Business Combination or (b) 12 months from the closing of the Initial Public Offering; provided in each case that the Company has an effective registration statement under the Securities Act covering the Class A common stock issuable upon exercise of the Public Warrants and a current prospectus relating to them is available (or the Company permits holders to exercise their Public Warrants on a cashless basis and such cashless exercise is exempt from registration under the Securities Act). The Company has agreed that as soon as practicable, but in no event later than 15 business days, after the closing of a Business Combination, the Company will use its best efforts to file with the SEC a registration statement for the registration, under the Securities Act, of the Class A common stock issuable upon exercise of the Public Warrants. The Company will use its best efforts to cause the same to become effective and to maintain the effectiveness of such registration statement, and a current prospectus relating thereto, until the expiration of the Public Warrants in accordance with the provisions of the warrant agreement. If a registration statement covering the Class A common stock issuable upon exercise of the warrants is not effective by the sixtieth (60th) day after the closing of the initial Business Combination, warrant holders may, until such time as there is an effective registration statement and during any period when the Company will have failed to maintain an effective registration statement, exercise warrants on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act or another exemption. The Public Warrants will expire five years after the completion of a Business Combination or earlier upon redemption or liquidation.

The Private Placement Warrants are identical to the Public Warrants underlying the Units sold in the Initial Public Offering, except that the Private Placement Warrants and the Class A common stock issuable upon exercise of the Private Placement Warrants will not be transferable, assignable or salable until 30 days after the completion of a Business Combination, subject to certain limited exceptions. Additionally, the Private Placement Warrants will be non-redeemable so long as they are held by the initial purchasers or such purchasers' permitted transferees. If the Private Placement Warrants are held by someone other than the initial stockholders or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

The Company may call the Public Warrants for redemption (except with respect to the Private Placement Warrants):

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon a minimum of 30 days' prior written notice of redemption; and
- if, and only if, the last reported closing price of the shares equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis," as described in the warrant agreement.

The exercise price and number of Class A shares issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuance of Class A shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the warrants shares. If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of warrants will not receive any of such funds with respect to their warrants, nor will they receive any distribution from the Company's assets held outside of the Trust Account with the respect to such warrants. Accordingly, the warrants may expire worthless.

8. FAIR VALUE MEASUREMENTS

The following table presents information about the Company's assets that are measured on a recurring basis as of 31 December 2019 and 2018 and indicates the fair value hierarchy of the valuation techniques that the Company utilized to determine such fair value.

Description	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
	US$	*US$*	*US$*
Assets held in Trust at 31 December 2019:			
U.S. Treasury Securities	161,991,526	—	—
Money market funds	28,383	—	—
	162,019,909	—	—

Description	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
	US$	*US$*	*US$*
Assets held in Trust at 31 December 2018:			
Money market fund	159,718,098	—	—
	159,718,098	—	—

Transfers to/from Levels 1, 2, and 3 are recognized at the end of the reporting period. There were no transfers between levels for the years ended 31 December 2019 and 2018.

9. INCOME TAXES

The Company's financial statements include total net income (loss) before taxes of approximately $2.4 million and approximately $0.9 million for the years ended 31 December 2019 and 2018, respectively. The income tax provision consists of the following:

	31 December	
	2019	**2018**
	US$	*US$*
Federal		
Current	547,749	311,183
Deferred	(40,546)	(119,993)
State and Local		
Current	—	—
Deferred	—	13,984
Change in Valuation allowance	168,651	106,009
Income tax provision (benefit)	675,854	311,183

Reconciliations of the differences between the provision/(benefit) for income taxes and income taxes at the statutory U.S. federal income tax rate is as follows:

	2019		2018	
	Amount	**Percent of Pretax Income**	**Amount**	**Percent of Pretax Income**
Current tax at U.S. statutory rate	514,015	21.00%	189,847	21.00%
Nondeductible/nontaxable items	2,436	0.10%	1,343	0.15%
State taxes, net of federal benefit	—	0.00%	—	0.00%
State effect of perm items	—	0.00%	—	0.00%
Valuation allowance activity	168,651	6.89%	106,009	11.72%
Deferred rate change	—	0.00%	13,984	1.55%
Current/deferred rate differential	—	0.00%	—	0.00%
Federal payable true-up	(9,248)	–0.38%	—	0.00%
Other	1	0.00%	—	0.00%
Total Income Tax Provision/(Benefit)	675,854	27.61%	311,183	34.42%

The components of deferred tax assets and liabilities as of 31 December 2019 and 2018 are as follows:

	31 December	
	2019	**2018**
	US$	*US$*
Deferred tax assets:		
Unrealized gain/loss	—	—
Start-up cost	313,660	145,009
Total deferred tax assets	313,660	145,009
Valuation allowance	(313,660)	(145,009)
Deferred tax liabilities		
Unrealized gain/loss	(128,105)	—
Net Deferred tax assets/(liabilities), net of allowance	(128,105)	—

As of 31 December 2019 and 2018, the Company has concluded that it is more likely than not that the Company will not realize the benefit of its deferred tax assets associated with start-up costs. Start-up costs cannot be amortized against future operating income until a business combination has occurred. Therefore, a full valuation allowance has been established prior to the company completing a business combination, as future events such as business combinations cannot be considered when assessing the realizability of Deferred Tax Assets and when the probability of a special purpose acquisition company consummating a business combination is less than 51%. In addition, a reliable forecast of trust investment income and start-up costs expected to be incurred in the period/s prior to a business combination or a dissolution and liquidation is not practicable. Accordingly, the net deferred tax assets have been fully reserved.

10. SUBSEQUENT EVENTS

On 10 January 2020, the Company received an additional loan proceed of $130,000 and increased the total amount outstanding under the Convertible Note to $880,000.

On 20 February 2020, the Company has agreed to amend its arrangement with Mr. Prot, pursuant to which no further monthly fees will be paid on a current monthly basis to Mr. Prot, however, if the Company completes its acquisition of a target company prior to 18 June 2020, the Company shall pay Mr. Prot $12,500 for each month Mr. Prot has continued to provide services to the Company since 1 January 2020. If the Company does not complete its acquisition of a target company prior to 18 June 2020 then no further fees will be payable to Mr. Prot following 31 December 2019.

The following is the text of the report from RSM US LLP, an independent registered public accounting firm in the United States, in respect of the audited financial statements of LF Capital as of and for the year ended 31 December 2019, issued on 24 February 2019.

This report is an extract from Form 10-K of LF Capital issued on 24 February 2019.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of LF Capital Acquisition Corp.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of LF Capital Acquisition Corp. (the "**Company**") as of 31 December 2019 and 2018, the related statements of operations, changes in stockholders' equity (deficit), and cash flows and the related notes to the financial statements (collectively, the financial statements) for the years ended 31 December 2019 and 2018. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's mandatory liquidation and subsequent dissolution if it does not complete a business combination by 22 June 2020 raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("**PCAOB**") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/RSM US LLP

We have served as the Company's auditor since 2017.

New York, New York
24 February 2020

MANAGEMENT DISCUSSION AND ANALYSIS OF LANDSEA HOMES

Set out below is the management discussion and analysis of Landsea Homes for each of the financial years ended 31 December 2019, 2020 and 2021 and the period from 1 January 2021 to 31 March 2022. The following discussion and analysis should be read in conjunction with the accountants' report of Landsea Homes as set out in Appendix II to this circular. Certain numerical figures included in this management discussion and analysis of Landsea Homes have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

BUSINESS REVIEW

Landsea Homes is a non-wholly owned subsidiary of the Company. It is incorporated under the State of Delaware in the USA and the common stock of which have been listed on NASDAQ since January 2021. Landsea Homes is principally engaged in real estate development.

FINANCIAL REVIEW

Profit & loss for the year

Landsea Homes recorded net income of approximately US$22,391 thousands for the financial year ended 31 December 2019, net loss of US$9,084 thousands for the financial year ended 31 December 2020 and net income of US$52,735 thousands for the financial year ended 31 December 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

As at 31 December 2019, current assets and current liabilities of Landsea Homes amounted to approximately US$768,650 thousands and US$66,329 thousands, respectively.

As at 31 December 2020, current assets and current liabilities of Landsea Homes amounted to approximately US$828,110 thousands and US$102,885 thousands, respectively.

As at 31 December 2021, current assets and current liabilities of Landsea Homes amounted to approximately US$1,214,122 thousands and US$226,517 thousands, respectively.

Financial resources

As at 31 December 2019, Landsea Homes had total cash and bank balances of approximately US$156,378 thousands.

As at 31 December 2020, Landsea Homes had total cash and bank balances of approximately US$110,048 thousands and marketable securities held in trust account of approximately US$7,617 thousands.

As at 31 December 2021, Landsea Homes had total cash and bank balances of approximately US$343,253 thousands.

Gearing

As at 31 December 2019, 31 December 2020 and 31 December 2021, the gearing ratio of Landsea Homes was approximately 5.76%, 29.23% and 18.97% respectively, which is computed as net debt (defined as total borrowings less cash and bank balance) divided by total equity.

Capital structure

As at 31 December 2019, 31 December 2020 and 31 December 2021, the total equity of Landsea Homes was approximately US$583,370 thousands, US$529,486 thousands and US$621,397 thousands respectively.

SIGNIFICANT INVESTMENTS

As at 31 December 2019, 31 December 2020, 31 December 2021 and the period from 1 January 2021 to 31 March 2022, there was no significant investment held by Landsea Homes and no investment in any investee company.

MATERIAL ACQUISITION AND DISPOSALS

As at 31 December 2019, 31 December 2020 and 31 December 2021, Landsea Homes conducted three acquisitions, which are the acquisition of Pinnacle West Homes in 2019; Garrett Walker Homes in 2020 and Vintage Estate Homes in 2021. And save for the proposed acquisition of Hanover Family Builders, LLC, a limited liability company incorporated in the State of Florida of the USA, Landsea Homes did not have any other plan for material investment or capital assets during the period.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2019, 31 December 2020 and 31 December 2021, there was no foreign exchange exposure held by Landsea Homes.

CHARGES ON ASSETS

As at 31 December 2019, 31 December 2020 and 31 December 2021, Landsea Homes did not have any charges on assets.

CONTINGENT LIABILITIES

As at 31 December 2021, Landsea Homes had no material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

Landsea Homes adopts remuneration policies similar to its peers in the industry. The remuneration payable to the staff of Landsea Homes is fixed by reference to the duties and prevailing market rates in the region. Discretionary performance bonuses after assessments are paid to employees to reward their contributions.

As at 31 December 2021, Landsea Homes had 384 employees.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' Interests and short positions in Shares, underlying shares and debentures of the Company and its associated corporation

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company or their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Long Position in Shares

Name of Directors	Capacity	Number of Shares	Approximate percentage in total number of issued Shares
Mr. Tian Ming	Interest of controlled corporations	2,755,445,866 *(Notes 1 and 2)*	58.34%
	Beneficial owner	8,901,500	0.19%
Mr. Huang Zheng	Beneficial owner	25,000,000 *(Note 3)*	0.52%

Notes:

1. These include (i) 2,011,513,187 Shares held through Greensheid; (ii) 376,017,785 Shares held through Easycorps; and (iii) 367,914,894 Shares held through Landsea International.

2. Greensheid is wholly-owned by Landsea International, which is in turn wholly owned by Landsea Group. Landsea Group is owned as to 34.15% by Nanjing Ding Chong Investment Management Consultants Ltd. ("**Nanjing Ding Chong**") and 15.85% by Mr. Tian Ming. Nanjing Ding Chong is a company wholly and beneficially owned by Mr. Tian Ming. Mr. Tian Ming is regarded as the controlling shareholder of Landsea Group. Easycorps is a company wholly and beneficially owned by Mr. Tian Ming. Therefore, Mr. Tian Ming is deemed to be interested in these 2,755,445,866 Shares pursuant to the SFO.

3. 20,000,000 Shares are restricted Shares granted by the Company pursuant to the restricted share award scheme adopted by the Board on 2 July 2014. 5,000,000 share options were granted to Mr. Huang Zheng on 1 April 2022 under the share option scheme adopted by the Company on 25 April 2012. The aforesaid share options could be exercised from 1 April 2023 to 31 March 2032 to subscribe for 5,000,000 ordinary shares of HK$0.01 each in the Company at the exercise price of HK$0.242 per share.

As at the Latest Practicable Date, save as disclosed below, none of the other Directors was a director or employee of a company which had, or was deemed to have, an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Title	Company
Mr. Tian Ming	Chairman and president	Landsea Group Co., Ltd.

(b) Substantial shareholders' interest

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of Shareholders	Long Position/ Short Position	Capacity	Number of Shares held	Approximate percentage in total number of issued Shares
Landsea Group *(Note 1)*	Long position	Interest in controlled corporation	2,379,428,081	50.38%
Landsea International *(Note 1)*	Long Position	Interest in controlled corporation	2,011,513,187	42.59%
		Beneficial interest	367,914,894	7.79%
Nanjing Ding Chong *(Note 1)*	Long Position	Interest in controlled corporation	2,379,428,081	50.38%
Greensheid *(Note 1)*	Long position	Beneficial interest	2,011,513,187	42.60%
Easycorps *(Note 2)*	Long position	Beneficial interest	376,017,785	7.96%
Ping An Insurance (Group) Company of China, Ltd. *(Note 3)*	Long position	Interest in controlled corporation	327,002,604	6.92%
	Short position	Interest in controlled corporation	327,002,604	6.92%
Ping An Life Insurance Company of China Ltd. *(Note 3)*	Long position	Interest in controlled corporation	327,002,604	6.92%
	Short position	Interest in controlled corporation	327,002,604	6.92%
Ping An Property & Casualty Insurance Company of China, Ltd. *(Note 3)*	Long position	Interest in controlled corporation	327,002,604	6.92%
	Short position	Interest in controlled corporation	327,002,604	6.92%
Ping An Real Estate Company Ltd. *(Note 3)*	Long position	Interest in controlled corporation	327,002,604	6.92%
	Short position	Interest in controlled corporation	327,002,604	6.92%
Pingan Real Estate Capital Ltd. *(Note 3)*	Long position	Interest in controlled corporation	327,002,604	6.92%
	Short position	Interest in controlled corporation	327,002,604	6.92%

Name of Shareholders	Long Position/ Short Position	Capacity	Number of Shares held	Approximate percentage in total number of issued Shares
Fuji Investment Management Limited *(Note 3)*	Long position Short position	Beneficial interest Beneficial interest	327,002,604 327,002,604	6.92% 6.92%
Ting Wang *(Note 4)*	Long Position	Interest in controlled corporation	331,376,970	7.02%
State-owned Assets Supervision And Administration Commission of Nanjing Municipal Government *(Note 5)*	Long Position	Interest in controlled corporation	314,507,927	6.66%
Nanjing Urban Construction Investment Holding (Group) Co., Ltd. *(Note 5)*	Long Position	Interest in controlled corporation	314,507,927	6.66%
Nanjing State-Owned Assets Investment & Management Holding (Group) Co., Ltd. *(Note 5)*	Long Position	Interest in controlled corporation	314,507,927	6.66%
Nanjing Tourism Group Co., Ltd. *(Note 5)*	Long Position	Interest in controlled corporation	314,507,927	6.66%
Nanjing Textiles Import & Export Corp., Ltd. *(Note 5)*	Long Position	Interest in controlled corporation	314,507,927	6.66%
Hong Kong Newdawn International Co., Limited *(Note 5)*	Long Position	Beneficial Interest	314,507,927	6.66%

Notes:

1. These include (i) 2,011,513,187 Shares held through Greensheid and (ii) 367,914,894 Shares held through Landsea International. Greensheid is wholly-owned by Landsea International, which is in turn wholly-owned by Landsea Group. Landsea Group is owned as to 34.15% by Nanjing Ding Chong, a company wholly and beneficially owned by Mr. Tian, and as to 15.85% by Mr. Tian. Therefore, Landsea International is deemed to be interested in the shares held by Greensheid, and Landsea Group is deemed to be interested in the shares held by Landsea International and Greensheid, as well as Nanjing Ding Chong is deemed to be interested in the Shares held by Greensheid and Landsea International pursuant to the SFO.

2. Easycorps is a company wholly and beneficially owned by Mr. Tian.

3. These include (i) 327,002,604 Shares held by Fuji Investment Management Limited. Fuji Investment Management Limited is wholly-owned by Pingan Real Estate Capital Limited which in turn is wholly-owned by Ping An Real Estate Company Limited. Ping An Real Estate Company Limited is owned as to 49.5% by Ping An Life Insurance Company of China Ltd. and 35% by Ping An Property & Casualty Insurance Company of China, Ltd. Each of Ping An Life Insurance Company of China Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd is owned as to 99.51% by Ping An Insurance (Group) Company of China, Ltd. Therefore, each of Ping An Insurance (Group) Company of China, Ltd., Ping An Life Insurance Company of China Ltd., Ping An Property & Casualty Insurance Company of China, Ltd., Ping An Real Estate Company Ltd. and Pingan Real Estate Capital Ltd. is deemed to be interested in the Shares held by Fuji Investment Management Limited pursuant to the SFO.

4. These include 252,608,635 Shares beneficially owned by Mr. Ting Wang ("**Mr. Ting**") and 78,768,335 Shares held through Ding Capital Management Limited ("**Ding Capital**"). Ding Capital is wholly-owned by Mr. Ting.

5. Hong Kong Newdawn International Co., Limited is wholly-owned by Nanjing Textiles Import & Export Corp., Ltd. Nanjing Textiles Import & Export Corp., Ltd. is owned as to 34.99% by Nanjing Tourism Group Co., Ltd. Nanjing Tourism Group Co., Ltd. is owned as to 60% by Nanjing Urban Construction Investment Holding (Group) Co., Ltd. and 40% by Nanjing State-Owned Assets Investment & Management Holding (Group) Co., Ltd. Nanjing State-Owned Assets Investment & Management Holding (Group) Co., Ltd. and Nanjing Urban Construction Investment Holding (Group) Co., Ltd. are both wholly-owned by State-Owned Assets Supervision And Administration Commission of Nanjing Municipal Government. Therefore, each of State-owned Assets Supervision And Administration Commission of Nanjing Municipal Government, Nanjing State-Owned Assets Investment & Management Holding (Group) Co., Ltd., Nanjing Urban Construction Investment Holding (Group) Co., Ltd., Nanjing Tourism Group Co., Ltd. and Nanjing Textiles Import & Export Corp., Ltd. is deemed to be interested in the Shares held by Hong Kong Newdawn International Co., Limited pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, no other person (other than the Directors or chief executives of the Company) had an interest or short position in the Shares or underlying Shares as recorded in the register kept by the Company pursuant to section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates is and was interested in any business which competes, or may compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

4. DIRECTOR'S INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), up to the Latest Practicable Date, been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

5. DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT OF SIGNIFICANCE

As at the Latest Practicable Date, save for the agreements referred to in items (i) to (v) below, in which Mr. Tian is deemed to have interests, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

(i) the shareholder loan framework agreement dated 31 December 2015 entered into between the Company and Landsea Group (the "**Framework Agreement**") pursuant to which Landsea Group agreed to grant shareholder loan(s) in an aggregate principal amount of not exceeding RMB4,000,000,000 (or Hong Kong Dollar equivalent) to the Company and/or its subsidiaries during the two-year period up to 31 December 2017 at an interest rate of 5.5% per annum and the amounts are interest free since 1 January 2018. As at 31 December 2021, Landsea International, a wholly-owned subsidiary of Landsea Group has granted an aggregate of RMB70,417,000 to the Company which remains outstanding. Apart from the grant of shareholder's loan under the Framework Agreement above, Landsea Group has also granted to LHC, an indirect wholly-owned subsidiary of the Company, certain loans in an aggregate principal amount of RMB1,665,000,000 with interest rate ranging from 5.294% to 6.6345% per annum repayable in 5 years from the respective date of drawdown. As at 31 December 2021, an aggregate of RMB917,577,000 remain outstanding;

(ii) the framework agreement dated 28 December 2020 entered into between the Company and Nanjing Landsea Property Management Limited, pursuant to which Nanjing Landsea Property Management Limited and its subsidiaries shall provide properties services and properties consulting services to the Group for a term of three years commencing from 1 January 2021 to 31 December 2023 at annual caps of RMB75 million, RMB78 million and RMB82 million respectively;

(iii) the framework agreement dated 28 December 2020 entered into between the Company and Landsea Group, pursuant to which the Group shall provide project management services to Landsea Group and its subsidiaries for a term of three years commencing from 28 December 2020 to 27 December 2023 at annual caps of RMB85 million per year;

(iv) the framework agreement dated 28 December 2020 entered into between the Company with Shanghai Landleaf Architecture Technology Co., Ltd., pursuant to which Shanghai Landleaf Architecture Technology Co., Ltd. shall continue to provide green architecture technological services to the Group for a term of three years commencing from 1 January 2021 to 31 December 2023 at annual caps of RMB25 million, RMB28 million and RMB31 million respectively; and

(v) the framework agreement dated 22 November 2021 entered into between the Company and Landsea Green Life Service Company Limited ("**Landsea Green Life**") pursuant to which the Company agreed to engage Landsea Green Life and its subsidiaries ("**Landsea Green Life Group**") as the exclusive sales agent to provide property agency services for the properties held by the Group until 31 December 2023; and Landsea Green Life Group shall pay the Group a security deposit for the performance by Landsea Green Life Group of its obligations under the agreement.

6. DIRECTOR'S SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which is not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this circular and are or may be material:

(i) the agreement dated 31 August 2020 (US time) entered into among Landsea Homes Incorporated ("**Landsea Homes**"), LHC, LF Capital Acquisition Corp. ("**LF Capital**") and LFCA Merger Sub, Inc. (the "**Merger Sub**") in relation to a business combination transaction by which Merger Sub merges with and into Landsea Homes with Landsea Homes being the surviving entity of such merger. Following such merger, Landsea Homes has become a wholly-owned subsidiary of LF Capital, a special purpose acquisition company, the Class A common stock of LF Capital, public warrants and units of which are listed on NASDAQ;

(ii) the equity transfer agreement dated 18 December 2020 entered into between 南京朗銘地產集團有限公司 (Nanjing Langming Real Estate Group Co., Ltd.) ("**Nanjing Langming**"), Xi'an Jiapeng Real Estate Development Co., Ltd. ("**Xi'an Jiapeng**"), 民生加銀資產管理有限公司 (Minsheng Royal Asset Management Co., Ltd.*), ("**Minsheng Royal Asset Management**") and 南京鑫輝盛投資管理有限公司 (Nanjing Xinhuisheng Investment Management Co., Ltd.*) ("**Nanjing Xinhuisheng**"), pursuant to which Minsheng Royal Asset Management (being an asset manager) agreed to transfer the entire equity interests of Nanjing Xinhuisheng on behalf of Minsheng Royal Asset Management's asset management plan and Nanjing Langming and Xi'an Jiapeng agreed to purchase 74% and 26% equity interests of Nanjing Xinhuisheng respectively at the total consideration of RMB531,783,806.66, in which Nanjing Langming agreed to pay RMB393,520,016.93;

(iii) the equity transfer agreement dated 29 December 2020 entered into by 中國信息產業有限公司 (China Information Industry Limited*) ("**China Information**"), Nanjing Langming, 深圳市科發工貿集團有限公司 (Shenzhen Kofa Industry and Trade Group Co., Ltd.*) ("**Shenzhen Kofa**") and 曙光信息產業(深圳)有限公司 (Dawning Information Industry (Shenzhen) Limited*) (the "**Subject Company**"), pursuant to which the China Information agreed to sell and Shenzhen Kofa agreed to purchase 100% of the equity interest in the Subject Company at the initial consideration of RMB500,000,000 (subject to adjustment);

(iv) the equity transfer agreement dated 8 February 2021 entered into by 上海朗毓商業管理有限公司 (Shanghai Langyu Commercial Management Limited*) ("**Shanghai Langyu**"), 南京洛德德寧房地產投資合夥企業 (Nanjing Luode Dening Real Estate Investment Partnership (Limited Partnership)*) ("**Dening Fund**") and 西安嘉鵬房地產開發有限公司 (Xi'an Jiapeng Real Estate Development Co., Ltd.*) (the "**Target Company**"), pursuant to which Dening Fund agreed to transfer and Shanghai Langyu agreed to purchase the 70% equity interest in the Target Company at the consideration of RMB42,000,000;

(v) the membership interest purchase agreement dated 27 April 2021 entered into by Landsea Homes US Corporation, Landsea Homes Corporation, Mercedes Premier Homes, LLC and Mr. Keith Buescher, Mr. Scott Buescher, Ms. Susan Girard, Ms. Linda Swain, and Mr. Tom Buescher (collectively known as the "**Sellers**"), pursuant to which Landsea Homes US Corporation conditionally agreed to acquire from the Sellers the entire membership interests of Mercedes Premier Homes, LLC for the initial Purchase Price of US$54,600,000 (subject to adjustment);

(vi) the capital increase agreement dated 15 December 2021 entered into by and among Chengdu Langduo Enterprise Management Consulting Co., Ltd.* (成都朗鐸企業管理諮詢有限公司) ("**Chengdu Langduo**"), Chengdu Desun Property Co., Ltd* (成都德商置業有限公司) and Chengdu Desun Rongda Property Co., Ltd* (成都德商榮達置業有限公司) in relation to the proposed capital contribution by Chengdu Langduo in the total amount of RMB30,000,000;

(vii) the second supplemental agreement dated 16 December 2021 to the loan agreements I entered into on 29 December 2017 between 蘇州朗坤置業有限公司 (Suzhou Langkun Property Limited*) ("**Suzhou Langkun**") and 江蘇國泰華鼎投資有限公司 (Jiangsu Guotai Huading Investment Company Limited*); and a second supplemental agreement dated 16 December 2021 to the loan agreements II entered into on 29 December 2017 between Suzhou Langkun and 江蘇國泰紫金科技發展有限公司 (Jiangsu Guotai Zijin Technology Development Company Limited*), pursuant to which Suzhou Langkun agreed to adjust certain terms under the loan agreements I and loan agreements II;

(viii) the membership interest purchase agreement dated 18 January 2022 (United States Pacific Standard Time) entered into by and among Landsea Homes of Florida LLC, non-wholly owned subsidiary of the Company as purchaser; Landsea Homes Corporation, a non-wholly owned subsidiary of the Company; SAM Building Partners, LLC and Edge Creek Ventures, LLC (collectively, the "**Sellers**"); SWO Holdings Irrevocable Trust, AJO Holdings Irrevocable Trust, JMO Holdings Irrevocable Trust (collectively, the "**Seller A Members**"); and J. Matthew Orosz, Andrew Orosz, and Stephen Orosz (collectively, the "**Orosz Principals**"), pursuant to which the purchaser agreed to purchase, and the sellers agreed to sell, all of the issued equity interests of Hanover Family Builders, LLC at a purchase price which will not be greater than US$185,000,000;

(ix) the Credit Agreement;

(x) the equity transfer agreement dated 17 May 2022 entered into between 南京朗銘地產集團有限公司 (Nanjing Langming Properties Group Limited*), an indirect wholly-owned subsidiary of the Company as vendor and 南京玖富星海置業有限公司 (Nanjing Jiufu Xinghai Real Estate Co., Ltd.*) as purchaser pursuant to which the vendor agreed to sell, and the purchaser agreed to purchase the entire equity interest in 南京鑫貝盛投資管理有限公司 (Nanjing Xinbeisheng Investment Management Limited*), an indirect wholly-owned subsidiary of the Company at the consideration of RMB85,500,000;

(xi) the Stock Purchase Agreement;

(xii) the Put Option Agreement;

(xiii) the equity transfer agreement dated 31 May 2022 entered into by Shanghai Langyu, 江蘇國泰華鼎投資有限公司 (Jiangsu Guotai Huading Investment Company Limited*) and Suzhou Langkun in relation to the acquisition of 22.5% equity interest in Suzhou Langkun at the consideration of RMB41,377,657.50;

(xiv) the equity transfer agreement dated 31 May 2022 entered into by Shanghai Langyu and 江蘇國泰紫金科技發展有限公司 (Jiangsu Guotai Zijin Technology Development Company Limited*) in relation to the acquisition of 22.5% equity interest in Suzhou Langkun at the consideration of RMB41,377,657.50; and

(xv) the share repurchase agreement dated 1 June 2022 (United States Eastern Daylight Time) entered into by LHC and Landsea Homes in relation to the proposed repurchase of 4,398,826 shares of LSEA Stock at a repurchase price of US$6.82 per share of LSEA Stock for a total consideration of approximately US$30 million.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

9. GENERAL

(a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.

(b) The head office of the Company and principal place of business of the Company in Hong Kong is at Unit 5103, 51/F., The Center, 99 Queen's Road Central, Hong Kong.

(c) Ms. Chan Yuen Ying, Stella ("**Ms. Chan**") is the company secretary of the Company. Ms. Chan was appointed as company secretary and authorized representative of the Company on 1 November 2006. Ms. Chan is a fellow member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 25 years' experience in handling listed company secretarial matters.

(d) The Bermuda principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited, at 4th floor North Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.

(e) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) This circular is prepared in both English and Chinese. In the event of inconsistency, English text shall prevail over its Chinese text unless otherwise specified.

10. DOCUMENTS ON DISPLAY

A copy of each of the following documents will be available on display online on the Stock Exchange's website through e-Submission System and on the Company's website for a period of 14 days from the date of this circular:

(a) the Credit Agreement;

(b) the Stock Purchase Agreement;

(c) the Put Option Agreement; and

(d) this circular.