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If you have sold or transferred all your shares in Landsea Green Management limited, 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 MANAGEMENT LIMITED
朗詩綠色管理有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

POSSIBLE VERY SUBSTANTIAL DISPOSAL
POSSIBLE DISPOSAL OF LISTED SECURITIES IN LANDSEA HOMES CORPORATION
AND
NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

RAINBOW CAPITAL (HK) LIMITED
泓博資本有限公司

A letter from the Board is set out on pages 3 to 15 of this circular.

A notice convening the SGM to be held at Landsea Green Center, Building 5, Lane 280, Linhong Road, Changning District, Shanghai, China, on Thursday, 29 February 2024 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. Shareholders who intend to appoint a proxy to attend and vote at the SGM shall complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

9 February 2024

CONTENTS

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

"Announcement"	announcement of the Company dated 5 February 2024 in relation to, among others, the Possible Disposal
"Board"	board of Directors
"Company"	Landsea Green Management Limited, 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)
"connected person(s)"	has the meanings as defined in the Listing Rules
"Director"	director(s) of the Company
"Disposal(s)"	disposal(s) of shares of LSEA Stock by LHC under the Possible Disposal
"Group"	the Company and its subsidiaries
"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 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 (stock code: LSEA), and a non-wholly owned subsidiary of the Company
"Landsea Homes Group"	Landsea Homes and its subsidiaries
"Last Trading Day"	2 February 2024 (New York time), being the last full trading day of the shares of LSEA Stock on NASDAQ prior to the release of the Announcement
"Latest Practicable Date"	6 February 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"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

"LSEA Stock"	the common shares of Landsea Homes
"Minimum Selling Price"	US$9.35 per share of LSEA Stock
"NASDAQ"	National Association of Securities Dealers Automated Quotations capital market
"Possible Disposal"	the proposed disposal(s) of up to 4,800,000 shares of LSEA Stock by LHC
"PRC"	the People's Republic of China
"Relevant Period"	the 6-month period from the date of passing of the relevant resolution approving the Possible Disposal at the SGM
"Remaining Group"	the Group excluding Landsea Homes
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve, amongst other things, the Possible Disposal
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US GAAP"	generally accepted accounting principles in the USA
"USA"	the United States of America
"US$"	United States dollar, the lawful currency of United States of America
"%"	per cent.

* *For identification purpose only.*

LANDSEA GREEN MANAGEMENT LIMITED
朗詩綠色管理有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

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Mr. Huang Zheng

Non-executive Director:
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Independent Non-executive Directors:
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Mr. Chen Tai-yuan
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Hong Kong

9 February 2024

To the Shareholders

Dear Sir or Madam,

POSSIBLE VERY SUBSTANTIAL DISPOSAL
POSSIBLE DISPOSAL OF LISTED SECURITIES IN LANDSEA HOMES CORPORATION
AND
NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 5 February 2024 in relation to the Possible Disposal. The purpose of this circular is to provide you with, among other things, further details about the Possible Disposal, a notice of the SGM and other information as required under the Listing Rules.

THE POSSIBLE DISPOSAL

The principal terms of the Possible Disposal are as follows:

Maximum number of shares of LSEA Stock to be disposed

The Company proposes to sell up to 4,800,000 shares of LSEA Stock held by the Group, representing approximately 13.17% of the total issued and outstanding shares of LSEA Stock as at the Latest Practicable Date.

Relevant Period

The Company proposes to complete the Possible Disposal during the period of 6 months from the date on which the Possible Disposal is approved at the SGM.

Manner of Disposal(s)

The Possible Disposal may be conducted (i) in the open market on NASDAQ to independent third parties through the trading system of NASDAQ; (ii) through underwritten offering or placing by investment banks to independent third parties; and/or (iii) in the off-market through block trades by entering into placing agreements with placing agents, to dispose of the shares of LSEA Stock to third party purchaser(s), who and whose ultimate beneficial owner(s) are independent third parties. As at the Latest Practicable Date, no potential purchaser for the shares of LSEA Stock has been identified.

The selling price of the shares of LSEA Stock shall be determined with reference to the then market price(s) of shares of LSEA Stock at the relevant material time, provided that:

(i) each Disposal through underwritten offering or placing by investment banks to independent third parties or in the off market shall be at market price of no more than 20% discount to the average of the closing price of shares of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately before the date of each Disposal during the Relevant Period; and

(ii) the minimum selling price of each Disposal shall be no less than the Minimum Selling Price, being US$9.35 per share of LSEA Stock.

The maximum 20% discount to the average of the closing price of shares of LSEA Stock for the five (5) consecutive trading days immediately prior to the date of the relevant Disposal represents the range of discounts to the referenced closing price which the Company may consider for the Possible Disposal, having regard to the then prevailing share price performance of shares of LSEA Stock and market sentiment. Whilst the Company will exercise its endeavours to dispose of the shares of LSEA Stock at the best available price to the Company, the proposed discount to the average of the closing price of shares of LSEA Stock would allow the Company to have flexibility to dispose of the shares of LSEA Stock within a reasonable price range in the event that the market sentiment is not favourable. In any event, the selling price of each Disposal shall be no less than the Minimum Selling Price.

The Minimum Selling Price was determined with reference to the net asset value per share of LSEA Stock of approximately US$17 per share of LSEA Stock as at 30 November 2023 and the average closing price of US$12.77 per share of LSEA Stock for the five consecutive trading days preceding the date of the Announcement.

Based on the closing price of shares of LSEA Stock in the past one year immediately before the date of the Announcement, the highest closing price was US$13.505 per share and the lowest closing price was US$5.83 per share and the average closing price was approximately US$8.87 per share. The highest daily trading volume of shares of LSEA Stock was 2,682,676 shares of LSEA Stock while the lowest daily trading volume of shares of LSEA Stock was 6,280 shares of LSEA Stock and the average trading volume for the past one year of shares of LSEA Stock was approximately 156,950 shares of LSEA Stock. The maximum number of 4,800,000 shares of LSEA Stock to be disposed under the Possible Disposal represents approximately 31 times of the average daily trading volume of shares of LSEA Stock for the past one year. In order to make the shares of LSEA Stock held by the Group to be more attractive in block trade, the Directors consider that it is fair and reasonable for the Company to offer certain percentage of discount to the market price. Using the average of the five days closing price of shares of LSEA Stock of approximately US$12.77 per share of LSEA Stock immediately before the date of the Announcement, if the shares of LSEA Stock are sold at 20% discount to the average of the five days closing price of shares of LSEA Stock, the proposed selling price is approximately US$10.22. In any event, the selling price of each Disposal shall be no less than the Minimum Selling Price. Hence, the Directors consider the proposed discount of 20% to the 5-day average closing price immediately before the date of each Disposal and the Minimum Selling Price are fair and reasonable.

The Company further considers that the Minimum Selling Price will allow flexibility for the Directors to sell the shares of LSEA Stock at a higher price when the market conditions are favourable and at the same time reflect the lowest acceptable price to dispose of the shares of LSEA Stock, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

The proposed discount of 20% to the 5-day average closing price of shares of LSEA Stock will allow flexibility of the Group in disposing of the shares of LSEA Stock promptly and the Minimum Selling Price, which is at a discount of approximately 45.0% to the net asset value per share of LSEA Stock, will safeguard the interests of the Company that the shares of LSEA Stock would not be disposed at a significant discount to the net asset value per share of LSEA Stock. Whilst the Company will exercise its endeavours to dispose of the shares of LSEA Stock at the best available price to the Company, it is necessary for the Possible Disposal to maintain flexibility. For instance, in the event that the market sentiment and the global economy are not favourable, there would be circumstances that the Company may have to dispose the shares of LSEA Stock at a discount to the previous market price. The 20% discount range has taken into consideration of market fluctuations and each Disposal shall be subject to approval by at least one of the executive Directors of the Company to ensure that each Disposal would be at the best available price (which shall be no less than the Minimum Selling Price) to the Company as at the time of relevant Disposal. As such, the Company considers that the terms of the Possible Disposal are fair and reasonable.

Compliance

The Possible Disposal shall comply with relevant applicable laws and regulations, including any applicable trading regulations in New York. The Group will also report on the progress of the Possible Disposal in the relevant interim report as well as the annual report of the Company in compliance with the Listing Rules.

The Minimum Selling Price

The Minimum Selling Price of US$9.35 per share of LSEA Stock represents:

(i) a discount of approximately 25.4% over the closing price of US$12.54 per share of LSEA Stock as quoted on NASDAQ immediately preceding the Last Trading Day;

(ii) a discount of approximately 26.8% over the closing price of US$12.77 per share of LSEA Stock as quoted on NASDAQ for the five (5) consecutive trading days immediately preceding the Last Trading Day; and

(iii) a discount of approximately 45.0% of the net asset value of US$17 per share of LSEA Stock as at 30 November 2023.

The Minimum Selling Price was determined with reference to (i) the net asset value per share of LSEA Stock as at 30 November 2023; (ii) the market performance of shares of LSEA Stock as quoted on NASDAQ for the past twelve months immediately before the date of the Announcement which ranged from US$5.83 to US$13.505 per share; and (iii) the prevailing market conditions and the uncertainty of global economy. The Directors consider that the Minimum Selling Price will allow flexibility for the Company to accommodate fluctuation in the market conditions in effecting the Possible Disposal and at the same time reflect the lowest acceptable price to the Company to dispose of the shares of LSEA Stock, and is thus fair and reasonable as far as the Company and the Shareholders are concerned.

Reasons for and Benefits of the Disposal

Having regard to the current market conditions, the Board considers that the Possible Disposal will provide 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 uncertainty in the future global economy, also having considered the funding needs of the Group, the Company considers that the Possible Disposal represents an opportunity to realise its investments and to allow the Group to reallocate its resources to the Group’s core businesses.

Given the volatility of the stock market, disposing of shares at the best possible prices requires prompt disposal actions at the right timing and it would not be practicable to seek prior Shareholders’ approval for each Disposal. To allow flexibility in effecting future Disposals at appropriate time(s) and price(s) so as to maximise the returns to the Group and its Shareholders, the Company proposes to seek approval from the Shareholders at the SGM for the Possible Disposal.

Each Disposal will be made with reference to the market prices on open market. The Board is of the view that the Possible Disposal is on normal commercial terms, and that the terms are fair, reasonable and in the interests of the Company and its shareholders as a whole.

Financial Effect of the Disposal and Use of Proceeds

As at the Latest Practicable Date, Landsea Homes was owned as to approximately 54.18% by LHC and was a subsidiary of the Company. Upon completion of the Possible Disposal, Landsea Homes may cease to be a subsidiary of the Company and the financial results of Landsea Home Group may cease to be consolidated in the results of the Company. The remaining shares of LSEA Stocks held by LHC will be retained.

According to Rule IM-5615-(4c) of the NASDAQ rules, a "controlled company" means "a company of which more than 50% of the voting power for the election of directors is held by an individual, a group or another company." Upon completion of the Possible Disposal, the Group will own less than 50% of the voting power in Landsea Homes. If Landsea Homes is no longer a controlled company, according to NASDAQ rules, within one year of the completion of the Possible Disposal, it will be required to have (i) a majority independent board, and (ii) fully independent committees, including Audit Committee, Compensation Committee and Nominating Committee. Currently, Landsea Homes has a majority independent board and a fully independent Audit Committee, whilst it does not have fully independent Compensation Committee and Nominating Committee, the composition of which shall be changed within one year of the completion of the Possible Disposal in order to comply with the NASDAQ rules. The auditor of the Company agrees with the Company that Landsea Homes will cease to be a subsidiary of the Company upon completion of the Possible Disposal in full as the Group will cease to have 50% or more of the voting right in Landsea Homes and will not be able to have control of the board of Landsea Homes upon compliance with the NASDAQ rules.

The Possible Disposal will have an impact on the net income attributable to the shareholders which is calculated on the basis of the difference between (i) the book value of all 19,740,729 shares of LSEA Stock, representing approximately 54.18% of the issued and outstanding shares of LSEA Stock as at the date of the Announcement, owned by the Group; and (ii) the consideration received from the disposal of 4,800,000 shares of LSEA Stock at the actual selling price together with the hypothetical gain on the remaining 14,940,729 shares of LSEA Stock owned by the Group based on the then market price per share of LSEA Stock.

For illustrating the financial impact of the Possible Disposal, on the assumption that all the 4,800,000 shares of LSEA Stock would have been disposed of at the Minimum Selling Price, the Group is expected to recognise a loss of approximately US$103,355,651 as at the date of the Announcement which is calculated on the basis of the difference between (i) the book value of 19,740,729 shares of LSEA Stock owned by the Group, being 54.18% of the issued and outstanding shares of LSEA Stock, as at the date of the Announcement, and (ii) the consideration of US$44,880,000 received from the Possible Disposal together with US$187,356,742, being the current market value of the remaining 41.01% of the issued and outstanding shares of LSEA Stock owned by the Group. There will be no effect on the liabilities of the Group as at 31 December 2022. The actual revaluation gain/loss of the Group as a result of the Possible Disposal will be depended on the actual Disposal price per share of

LSEA Stock and the then market price and will be subject to final audit by the auditors of the Company. The Group will exercise its endeavours to achieve best available terms but the Disposal price shall be subject to market fluctuations and economic environment. The Company will exercise its endeavour to achieve the best available price to the Company at the time of execution of each Disposal.

The Company will use approximately US$25 million from the Possible Disposal for repayment of loans and the remaining will be used for general working capital.

INFORMATION ON THE PARTIES

Landsea Homes

Landsea Homes is a non-wholly owned subsidiary of the Company. It was incorporated under the laws of the State of Delaware in the USA and the common stock of which are listed on NASDAQ. Landsea Homes is principally engaged in real estate development. As at the Latest Practicable Date, Landsea Homes is owned as to approximately 54.18% by LHC.

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 2022 prepared in accordance with US GAAP are as follows:

	For the year ended 31 December 2021 *(US$)*	**For the year ended 31 December 2022** *(US$)*
Profit before taxation	66,730,000	101,065,000
Profit after taxation	52,735,000	75,665,000

As at 31 December 2022, the audited consolidated net assets of Landsea Homes was US$710,319,000.

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:

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 2022, the adjustment mentioned above resulted in a recognition of an additional investment income before tax in the JV of RMB0.39 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 RMB0.39 million, and additional profits after tax of RMB0.28 million (as compared with that under US GAAP). The additional profits before tax and after tax accounted for approximately 0.06% and 0.05%, respectively, of the total profits before tax and after tax of Landsea Homes for the year ended 31 December 2022.

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 2021.

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 2022, due to the recognition of the gains on changes in the fair value, an additional US$873,000 was recognized as profits under HKFRS. For the year ended 31 December 2021, due to the recognition of the gains on changes in the fair value, an additional US$911,000 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.

Company

The Company is an investment holding company. The Group is principally engaged in development and sales of properties in the PRC and the USA, provision of project development and management services.

LHC

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

IMPLICATIONS UNDER THE LISTING RULES

Assuming that all the 4,800,000 shares of LSEA Stock held by the Group will have been disposed of within the Relevant Period at the Minimum Selling Price, the highest applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Possible Disposal will exceed 75%. As such, the Possible Disposal will constitute a very substantial disposal of the Company and is subject to the reporting, announcement and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Company will seek the approval of the Shareholders at the SGM for the mandate of the Possible Disposal. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Possible Disposal. Accordingly, it is expected that no Shareholder is required to abstain from voting at the SGM.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.68(2)(A)(I) OF THE LISTING RULES

Pursuant to Rule 14.68(2)(a)(i) of the Listing Rules, for a circular issued in relation to a very substantial disposal, it is required that financial information of either (a) Landsea Homes; or (b) the Group with Landsea Homes being shown separately, to be included in the circular in relation to the Proposed Disposal, where such financial information must be reviewed by the Company's auditors or reporting accountants according to the relevant accounting standards as specified under Rule 14.68(2)(a)(i) of the Listing Rules (the "**Rules Requirements**").

The Company applied for a wavier from strict compliance with the requirement of Rule 14.68(2)(a)(i) based on the following grounds:

(a) As at the Latest Practicable Date, Landsea Homes is a non-wholly owned subsidiary of the Company and owned as to approximately 54.18% by LHC, an indirect wholly-owned subsidiary of the Company;

(b) Landsea Homes is a company listed on NASDAQ, and it publishes its financial information in accordance with US GAAP on a quarterly basis under the relevant regulatory requirements. 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;

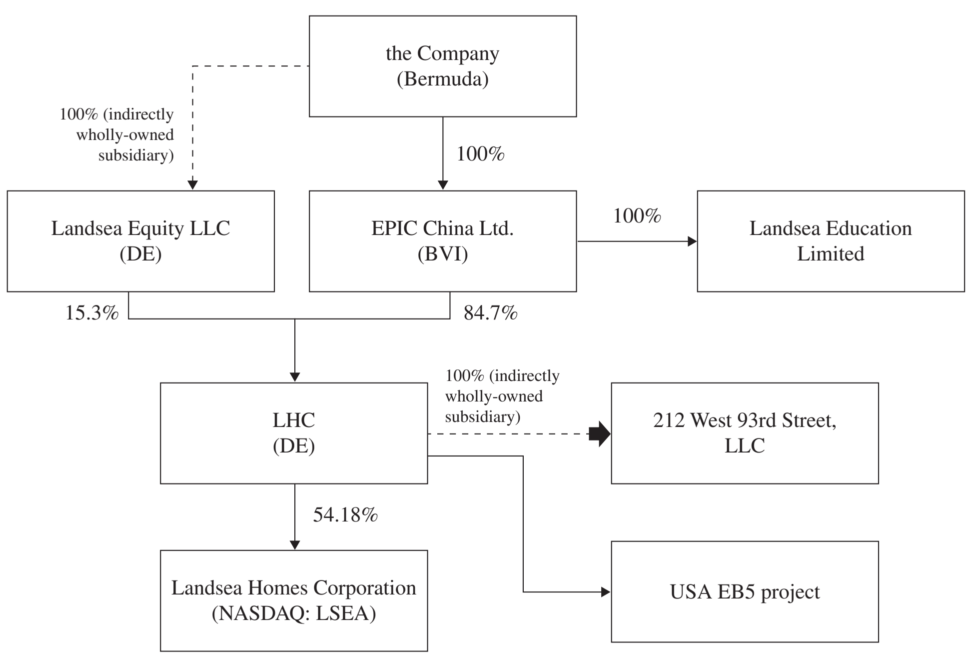
(c) The financial condition of Landsea Homes is best assessed by its published financial information prepared in US GAAP as Landsea Homes is a company listed on NASDAQ. Financial information of Landsea Homes prepared in accordance with the relevant standards required under Rule 14.68(2)(a)(i) of the Listing Rules would not provide the Shareholders with further information on Landsea Homes;

(d) The published audited financial information of Landsea Homes for the three years ended 31 December 2022 and the published reviewed financial information of Landsea Homes for the nine months ended 30 September 2023 (prepared under US GAAP) are clean without qualifications;

(e) The financial statements of Landsea Homes for the two years ended 31 December 2021 and for the year ended 31 December 2022 was audited by PricewaterhouseCooper in USA and Deloitte in USA ("**Deloitte USA**") respectively, and the financial statements for the nine months ended 30 September 2023 was reviewed by Deloitte USA. The audit and the review were in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB);

(f) 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 14.68(2)(a)(i) of the Listing Rules in light of the substantial time and costs required. Although Landsea Homes is a subsidiary of the Company and its financial information was consolidated in that of the Company, the preparation of financial information of Landsea Homes as required under Rule 14.68(2)(a)(i) of the Listing Rules would be unduly burdensome for the following reasons:

(i) Landsea Homes is an indirect non-wholly owned subsidiary of the Company. As at the Latest Practicable Date, Landsea Homes is owned as to 54.18% by LHC, which is owned as to 84.7% by EPIC China Limited ("**EPIC China**"), a direct wholly-owned subsidiary of the Company. In addition to the equity interest in LHC, EPIC China holds 100% equity interest in Landsea Education Limited and in addition to the equity interest in Landsea Homes, LHC holds other businesses and assets including the 212 West 93rd Street project, a condominium project in New York, and USA EB5 project, an immigrant investor program. The simplified organisation chart of LHC is as follows:



(ii) LHC has its own credit operations with banks and business dealings with its parent company, EPIC China.

(iii) When the Company and the auditor prepared the consolidated financial statements of the Company at the end of each financial year, the Company directly consolidated the consolidated financial statements of EPIC China with the transition of the accounting standards occurring at the level of EPIC China instead of that of Landsea Homes.

(iv) When the audited consolidated financial statements of the Company were being prepared, the auditor of the Company would send an audit assignment instruction to the auditor of EPIC China in the US who would prepare the consolidated financial statements of EPIC China and conduct an audit in accordance with the audit process under the US GAAP. Upon completion of the audit, the US auditor would send a signed report to the auditor of the Company in Hong Kong. The Hong Kong auditor would then perform the standard conversion based on audited consolidated financial statements of EPIC China, which would be integrated in the consolidated financial statements of the Company. Therefore, the Company does not have the financial statements of Landsea Homes prepared under IFRS or HKFRS readily available.

(v) To prepare the financial information of Landsea Homes as required under Rule 14.68(2)(a)(i) of the Listing Rules, the Company would have to perform a standard conversion of the consolidated financial statements of Landsea Homes for not less than three financial years (the "**Period**") prepared in US GAAP. As such, the Company would have to engage an external accountants' firm (Firm A) who would first need to complete the internal process and then conduct internal risk control review and testing before starting the conversion work, which is expected to take 2 months.

(vi) The Company will have to engage another accountants' firm to perform the review process on all subjects covered in the completed working papers prepared by Firm A for the Period, which is expected to take 2 to 3 months.

(vii) Since both Landsea Homes and the Company have recently changed their auditors in 2022, this would likely require additional time and effort on the verification of the drafts, particularly in obtaining draft data from the resigned auditors. As a result, this will likely further extend the above estimation of time.

(viii) If the financial information of Landsea Homes as required under Rule 14.68(2)(a)(i) of the Listing Rules is required, the time to despatch this circular will be delayed by 4 to 6 months. Given the nature of the transaction which involves disposal of listed securities, this is not feasible due to the volatility of the market.

(g) As disclosed under the paragraph headed "Information on the parties — Landsea Homes" above, save for "Capitalization of interest" and "Public warrants", there were no differences in accounting policies between the audited financial information of Landsea Homes prepared under US GAAP and that of the Company prepared under HKFRS; and

(h) The Company has included in this circular the pro forma statements of the remaining group as required under Rule 14.68(2)(a)(ii) of the Listing Rules. The pro forma statements show the impact of the Possible Disposal in compliance with Rules 4.27 and 4.29 of the Listing Rules. The Shareholders will be able to assess the impact of the Possible Disposal.

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 be costly and time consuming to prepare separate audited financial statements of Landsea Homes in accordance with HKFRS as required under Rules 14.68(2)(a)(i) of the Listing Rules. In replacement of an accountants' report on Landsea Homes prepared in accordance with HKFRS, the published audited financial information on Landsea Homes for the three years ended 31 December 2022 and the published reviewed financial information on Landsea Homes for the nine months ended 30 September 2023 prepared in accordance with US GAAP have been included in this circular. In addition, a line-by-line reconciliation of Landsea Homes' financial information for the differences between its accounting policies under US GAAP and the accounting policies of the Company under HKFRS is included in this circular. The reconciliation has been reviewed by auditors in accordance with the applicable standard.

Based on the above, the Stock Exchange has granted a waiver from strict compliance with Rule 14.68(2)(a)(i) of the Listing Rules such that the Company is not required to include an accountants' report on Landsea Homes in accordance with HKFRS in this circular.

SGM

The Proposed Disposal constitute a very substantial disposal for the Company under the Listing Rules, for which Shareholders' approval is required. A notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular. In accordance with the requirements of the Listing Rules, all votes to be taken at the SGM will be by way of poll. An announcement on the poll vote results will be published by the Company after the SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for the SGM is enclosed herewith. Shareholders who intend to appoint a proxy to attend and vote the SGM shall complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no shareholder has a material interest in the Proposed Disposal and hence no Shareholder is required to abstain from voting on the approval of the Proposed Disposal.

RECOMMENDATION

The Board considers that the terms of the Proposed Disposal and are fair and reasonable and in the interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution if the Company was to convene a general meeting to approve the Proposed Disposal contemplated thereunder.

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 Management Limited
Tian Ming
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023 are disclosed in the following documents which have been published 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:

- Interim report of the Company for the six months ended 30 June 2023 published on 22 September 2023 (pages 23 to 106):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0922/2023092200536.pdf

- Annual report of the Company for the year ended 31 December 2022 published on 28 April 2023 (pages 134 to 345):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0428/2023042804401.pdf

- Annual report of the Company for the year ended 31 December 2021 published on 27 April 2022 (pages 142 to 337):

  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 129 to 325):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042900843.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 31 December 2023, 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 RMB7,602.1 million, consisting of current borrowings of approximately RMB1,423.3 million, non-current borrowings of approximately RMB6,029.7 million, public and private placement warrants of approximately RMB39.0 million and lease liabilities of approximately RMB110.1 million. Among the current borrowings and non-current borrowings (approximately RMB7,453.0 million), guaranteed debts amounted to approximately RMB5,564.4 million, and secured and unsecured debts amounted to approximately RMB1,610.6 million and RMB278.0 million, respectively.

As at 31 December 2023, 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 RMB900.0 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.

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 31 December 2023, 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 Disposals, 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.

The Company's strategic transformation for product differentiation, asset-light model transformation and revenue diversification has started in 2014, and almost ten years has passed. In 2022, the Company officially changed its name to ''Landsea Green Management Limited'' to more accurately reflect the strategic positioning of an asset-light green development service provider. 2023 was a difficult year for the industry as it was still in a period of adjustment, but the Company is confident enough to find the most suitable development path by leveraging its unique advantages in the new era.

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 2022 (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 unaudited financial statements of Landsea Homes Corporation for the nine months ended 30 September 2023, which were prepared in accordance with U.S. GAAP, from the 2023 Quarterly Report on Form 10-Q of Landsea Homes Corporation issued on 2 November 2023.

The 2023 Quarterly Report on Form 10-Q have been published on the website of Nasdaq (www.nasdaq.com) and can be accessed at the website address below:

https://ir.landseahomes.com/sec-filings/all-sec-filings/content/0001721386-23-000023/0001721386-23-000023.pdf

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Landsea Homes Corporation
Consolidated Balance Sheets - (Unaudited)
(in thousands, except share and per share amounts)

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 133,491	$ 123,634
Cash held in escrow	10,956	17,101
Real estate inventories	1,155,661	1,093,369
Due from affiliates	4,232	3,744
Goodwill	68,639	68,639
Other assets	104,108	134,009
Total assets	$ 1,477,087	$ 1,440,496
Liabilities		
Accounts payable	$ 72,287	$ 74,445
Accrued expenses and other liabilities	150,079	149,426
Due to affiliates	881	884
Line of credit facility, net	317,010	505,422
Senior notes, net	235,383	—
Total liabilities	775,640	730,177
Commitments and contingencies (*Note 8*)		
Equity		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized, none issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 41,382,453 issued and 37,795,191 outstanding as of September 30, 2023, 42,110,794 issued and 40,884,268 outstanding as of December 31, 2022	4	4
Additional paid-in capital	477,837	497,598
Retained earnings	175,109	158,348
Total stockholders' equity	652,950	655,950
Noncontrolling interests	48,497	54,369
Total equity	701,447	710,319
Total liabilities and equity	$ 1,477,087	$ 1,440,496

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenue				
Home sales	$ 258,062	$ 326,496	$ 790,199	$ 975,269
Lot sales and other	19,286	9,089	22,133	45,222
Total revenues	277,348	335,585	812,332	1,020,491
Cost of sales				
Home sales	209,753	258,362	647,642	770,220
Lot sales and other	13,309	10,737	15,770	40,546
Total cost of sales	223,062	269,099	663,412	810,766
Gross margin				
Home sales	48,309	68,134	142,557	205,049
Lot sales and other	5,977	(1,648)	6,363	4,676
Total gross margin	54,286	66,486	148,920	209,725
Sales and marketing expenses	16,930	21,063	51,672	64,366
General and administrative expenses	25,463	21,111	74,223	70,734
Total operating expenses	42,393	42,174	125,895	135,100
Income from operations	11,893	24,312	23,025	74,625
Other income (loss), net	656	990	2,770	(654)
Loss on remeasurement of warrant liability	—	—	—	(7,315)
Pretax income	12,549	25,302	25,795	66,656
Provision for income taxes	3,066	4,021	6,323	17,460
Net income	9,483	21,281	19,472	49,196
Net income attributable to noncontrolling interests	887	1,311	2,711	1,226
Net income attributable to Landsea Homes Corporation	$ 8,596	$ 19,970	$ 16,761	$ 47,970
Income per share:				
Basic	$ 0.22	$ 0.49	$ 0.43	$ 1.10
Diluted	$ 0.22	$ 0.49	$ 0.42	$ 1.09
Weighted average common shares outstanding:				
Basic	38,336,100	39,935,152	39,402,507	42,768,269
Diluted	38,440,392	40,097,269	39,549,035	42,943,871

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Consolidated Statements of Equity - (Unaudited)
(in thousands, except shares)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at June 30, 2023	39,183,181	$ 4	$ 490,741	$ 166,513	$ 54,348	$ 711,606
Stock options exercised	3,877	—	37	—	—	37
Stock-based compensation expense	—	—	879	—	—	879
Repurchase of common stock and associated tax	(1,391,867)	—	(13,820)	—	—	(13,820)
Distributions to noncontrolling interests	—	—	—	—	(6,738)	(6,738)
Net income	—	—	—	8,596	887	9,483
Balance at September 30, 2023	37,795,191	$ 4	$ 477,837	$ 175,109	$ 48,497	$ 701,447

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at December 31, 2022	40,884,268	$ 4	$ 497,598	$ 158,348	$ 54,369	$ 710,319
Shares issued under share-based awards	267,782	—	—	—	—	—
Stock options exercised	3,877	—	37	—	—	37
Cash paid for shares withheld for taxes	—	—	(695)	—	—	(695)
Stock-based compensation expense	—	—	2,249	—	—	2,249
Repurchase of common stock and associated tax	(2,360,736)	—	(21,352)	—	—	(21,352)
Forfeiture and cancellation of Earnout Shares	(1,000,000)	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	(8,583)	(8,583)
Net income	—	—	—	16,761	2,711	19,472
Balance at September 30, 2023	37,795,191	$ 4	$ 477,837	$ 175,109	$ 48,497	$ 701,447

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Consolidated Statements of Equity - (Unaudited)
(in thousands, except shares)

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at June 30, 2022	40,925,579	$ 4	$ 496,170	$ 112,797	$ 56,165	$ 665,136
Shares issued under share-based awards	24,464	—	—	—	—	—
Stock-based compensation expense	—	—	908	—	—	908
Distributions to noncontrolling interests	—	—	—	—	(3,072)	(3,072)
Net income (loss)	—	—	—	19,970	1,311	21,281
Balance at September 30, 2022	40,950,043	$ 4	$ 497,078	$ 132,767	$ 54,404	$ 684,253

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at December 31, 2021	46,281,091	$ 5	$ 535,345	$ 84,797	$ 1,250	$ 621,397
Shares issued under share-based awards	228,529	—	—	—	—	—
Cash paid for shares withheld for taxes	—	—	(848)	—	—	(848)
Stock-based compensation expense	—	—	2,780	—	—	2,780
Repurchase of common stock	(5,559,577)	(1)	(40,199)	—	—	(40,200)
Contributions from noncontrolling interests	—	—	—	—	55,000	55,000
Distributions to noncontrolling interests	—	—	—	—	(3,072)	(3,072)
Net income (loss)	—	—	—	47,970	1,226	49,196
Balance at September 30, 2022	40,950,043	$ 4	$ 497,078	$ 132,767	$ 54,404	$ 684,253

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation

Consolidated Statements of Cash Flows - (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2023	2022
	(dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 19,472	$ 49,196
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,778	4,445
Loss on remeasurement of warrant liability	—	7,315
Real estate inventories impairment	4,700	—
Stock-based compensation	2,249	2,780
Loss on extinguishment or forgiveness of debt	—	2,496
Abandoned project costs	745	324
Write-off of offering costs	436	—
Deferred taxes	(10)	(2,217)
Changes in operating assets and liabilities:		
Cash held in escrow	6,145	(3,111)
Real estate inventories	(64,666)	(99,397)
Due from affiliates	(491)	(715)
Other assets	31,790	(46,887)
Accounts payable	(2,159)	2,284
Accrued expenses and other liabilities	123	287
Net cash provided by (used in) operating activities	2,112	(83,200)
Cash flows from investing activities:		
Purchases of property and equipment	(5,530)	(4,062)
Distributions of capital from unconsolidated joint ventures	—	578
Payments for business acquisition, net of cash acquired	—	(258,727)
Net cash used in investing activities	(5,530)	(262,211)
Cash flows from financing activities:		
Borrowings from notes and other debts payable	482,500	361,910
Repayments of notes and other debts payable	(429,300)	(240,526)
Cash paid for shares withheld for taxes	(695)	(848)
Payment for buyback of warrants	—	(16,500)
Proceeds from exercise of stock options	37	—
Repurchases of common stock	(21,160)	(40,200)
Contributions from noncontrolling interests	—	55,000
Distributions to noncontrolling interests	(8,583)	(3,072)
Deferred offering costs paid	(224)	—
Debt issuance and extinguishment costs paid	(9,300)	(3,414)
Net cash provided by financing activities	13,275	112,350
Net decrease in cash, cash equivalents, and restricted cash	9,857	(233,061)
Cash, cash equivalents, and restricted cash at beginning of period	123,634	343,253
Cash, cash equivalents, and restricted cash at end of period	$ 133,491	$ 110,192

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

1. Company and Summary of Significant Account Policies

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

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 subsidiaries, partnerships, and other entities in which the Company has a controlling interest as well as variable interest entities ("VIEs") in which the Company is deemed the primary beneficiary. The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary are accounted for under the equity method. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 9, 2023. The accompanying unaudited consolidated financial statements include all adjustments, consisting of normal recurring entries, necessary for a fair presentation of the Company's results for the interim periods presented. Results for the interim periods are not necessarily indicative of the results to be expected for the full year due to seasonal variations and other factors.

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.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting. These changes are intended to simplify the market transition from the London Interbank Offered Rate ("LIBOR") to alternative reference rates. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which clarified the scope and application of ASU 2020-04. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the sunset date of the reference rate reform guidance to December 31, 2024. The guidance in ASU 2020-04 may be elected over time, through December 31, 2024, as reference rate reform activities occur. Once ASU 2020-04 is elected, the guidance must be applied prospectively for all eligible contract modifications. In June 2022, the Company modified its credit facility to use the Secured Overnight Financing Rate ("SOFR") as a reference rate rather than LIBOR. The Company elected to apply this guidance which preserves the presentation of the loan consistent with the presentation prior to the modification.

In October 2021, the FASB issued ASU 2021-08, which requires application of Accounting Standards Codification ("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, *Business Combinations*, 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 December 15, 2022, early adoption was permitted. The adoption did not have a material impact on the Company's consolidated financial statements.

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

In March 2023, the FASB issued ASU 2023-01, which amends the application of ASU 2016-02, *Leases (Topic 842),* related to leases with entities under common control, also referred to as common control leases. The amendments to this update require an entity to consider the useful life of leasehold improvements associated with common control leases from the perspective of the common control group and amortize the leasehold improvements over the useful life of the assets to the common control group, instead of the term of the lease. Any remaining value for the leasehold improvement at the end of the lease would be adjusted through equity. The standard is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

2. Business Combinations

On January 18, 2022, the Company acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder, for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The aggregate purchase price included a pay-off of $69.3 million related to debt held by Hanover and a payment of $15.6 million for land-related deposits. The total assets of Hanover included approximately 20 development projects and 3,800 lots owned or controlled in various stages of development.

In accordance with ASC 805, the assets acquired and liabilities assumed from the acquisition of Hanover were measured and recognized at fair value as of the date of the acquisition 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 valuation specialist, 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 related to the Hanover trade name, which was estimated to have a fair value of $1.6 million and was 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 and business synergies. Goodwill of $44.2 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 Florida reporting segment in *Note 11 – Segment Reporting*. The Company incurred transaction related costs of $0.1 million and $0.7 million related to the Hanover acquisition during the three and nine months ended September 30, 2022, respectively.

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	$	3,857
Real estate inventories		232,071
Goodwill		44,182
Trade name		1,590
Other assets		378
Total assets	$	282,078
Liabilities Assumed		
Accounts payable	$	6,329
Accrued expenses		13,165
Total liabilities		19,494
Net assets acquired	$	262,584

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and net income for the following periods presented give effect to the results of the acquisition of Hanover as though the acquisition date was as of January 1, 2021, the beginning of the year preceding the acquisition. Unaudited pro forma net income adjusts the operating result of Hanover 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 name and transaction related costs.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(dollars in thousands)	
Revenue	$ 335,585	$ 1,025,600
Pretax income	34,994	103,890
Provision for income taxes	4,823	27,213
Net income	$ 30,171	$ 76,677

3. Variable Interest Entities

The Company consolidates two joint venture ("JV") VIEs. The consolidated VIEs include one active project in the Metro New York area ("14th Ave JV") and one JV with the purpose of acquiring undeveloped land (the "LCF JV"). The Company has determined that it is the primary beneficiary of these VIEs as it has the power to direct activities of the operations that most significantly affect their economic performance.

Both consolidated VIEs are financed by equity contributions from the Company and the JV partner. The 14th Ave JV was also funded by third-party debt which was paid off in April 2022 with proceeds from a loan provided by the Company. The intercompany loan is eliminated upon consolidation.

The following table summarizes the carrying amount and classification of the VIEs' assets and liabilities in the consolidated balance sheets as of September 30, 2023 and December 31, 2022.

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Cash	$ 4,407	$ 4,697
Real estate inventories	90,682	99,699
Due from affiliates	719	329
Other assets	2,104	2,124
Total assets	$ 97,912	$ 106,849
Accounts payable	$ 288	$ 1,577
Accrued expenses and other liabilities	4,950	5,616
Total liabilities	$ 5,238	$ 7,193

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Deposits and pre-acquisition costs	$ 101,429	$ 101,395
Land held and land under development	280,755	191,047
Homes completed or under construction	720,265	779,352
Model homes	53,212	21,575
Total real estate inventories	$ 1,155,661	$ 1,093,369

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 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, *Property, Plant, and Equipment,* real estate 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 reviews each real estate asset at the community-level, on a quarterly basis or whenever indicators of impairment exist. The Company generally determines 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 the Company's estimates of future home sales revenue, home construction costs, pace of homes sales, and the applicable discount rate.

During the nine months ended September 30, 2023 the Company recorded $4.7 million of real estate inventories impairment charges related to one community in its California segment. In this instance, the Company determined that additional incentives and persistent discounts were required to sell the remaining homes and was the primary cause of driving the estimated future cash flows for the community below its previous carrying values. No additional impairments were recorded during the three months ended September 30, 2023. The Company did not recognize any impairments on real estate inventories during the three and nine months ended September 30, 2022. Real estate inventories impairment charges are recorded to cost of home sales in the consolidated statements of operations.

The table below provides quantitative data for Level 3 inputs, for the periods presented, where applicable, used in determining the fair value of the impaired inventory.

	Impairment Data			Quantitative Data
Three Months Ended	Number of Projects Impaired	Real Estate Inventories Impairment	Fair Value of Inventory After Impairment	Discount Rate
		(dollars in thousands)		
June 30, 2023	1	$ 4,700	$ 19,363	11 %
Total		$ 4,700		

5. Capitalized Interest

Interest is capitalized to real estate inventories during development and as a result of other qualifying activities. Interest capitalized as a cost of real estate inventories is included in cost of sales as related inventories are delivered.

For the three and nine months ended September 30, 2023, the Company incurred and capitalized interest of $14.4 million and $37.6 million, respectively. For the three and nine months ended September 30, 2022, the Company incurred and capitalized interest of $13.8 million and $28.6 million, respectively. Previously capitalized interest included in cost of sales during the three and nine months ended September 30, 2023 was $10.0 million and $21.9 million, respectively. Previously capitalized interest included in cost of sales during the three and nine months ended September 30, 2022 was $10.2 million and $31.3 million, respectively. These amounts included interest from certain related party transactions, refer to *Note 9 – Related Party Transactions* for additional information.

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

6. Other Assets

As of September 30, 2023 and December 31, 2022, the Company had contract assets of $6.3 million and $7.2 million, respectively, related to lot sales and other revenue. The contract asset balance is included in other assets on the Company's consolidated balance sheets and represents cash to be received for work already performed on lot sales and other contracts. The amount of the transaction price for lot sales and other contracts remaining to be recognized as revenue for performance obligations that were not fully satisfied as of September 30, 2023 and December 31, 2022 was $3.7 million and $11.6 million, respectively. As of September 30, 2023, the Company had $1.0 million of deferred revenue related to lot sales and other revenue included in accrued expenses and other liabilities in the Company's consolidated balance sheets. As of December 31, 2022, the Company had no deferred revenue related to lot sales and other revenue. The Company reduces these liabilities and recognizes revenue as development progresses and the related performance obligations are completed.

7. Notes and Other Debts Payable, net

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

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Line of credit facility	$ 325,000	$ 514,300
Deferred loan costs	(7,990)	(8,878)
Line of credit facility, net	$ 317,010	$ 505,422

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Senior notes	$ 250,000	$ —
Discount and deferred loan costs	(14,617)	—
Senior notes, net	$ 235,383	$ —

In October 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 $675.0 million of which there was $325.0 million outstanding as of September 30, 2023. The Company may increase the borrowing capacity up to $850.0 million, under certain conditions. Funds available under the Credit Agreement are subject to a borrowing base requirement which is calculated on specified percentages of our real estate inventories. Borrowings under the Credit Agreement bear interest at SOFR plus 3.35% or Prime Rate (as defined in the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of LIBOR with SOFR as an index rate, and an extension of the maturity date to October 2025. As of September 30, 2023, the interest rate on the loan was 8.68%. In July 2023, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

In July 2023, the Company entered into a new senior unsecured note (the "Note Purchase Agreement"). The Note Purchase Agreement provided for the private placement of $250.0 million aggregate principal amount of 11% senior notes (the "Senior Notes"). The Company received the proceeds, net of discount and fees, in July 2023. The Senior Notes matures in July 2028.

In addition, the Company previously had one project-specific construction loan. In April 2022, the construction loan was repaid in full with proceeds from borrowings under the Credit Agreement. In connection with this payoff, the Company incurred $2.5 million of debt extinguishment fees, which were included in other income, net, in the consolidated statements of operations during the year ended December 31, 2022.

The Credit Agreement and Note Purchase Agreement contain certain restrictive financial covenants, such as requirements for the Company to maintain a minimum liquidity balance, minimum tangible net worth, and leverage and interest coverage ratios. As of September 30, 2023, the Company was in compliance with all financial covenants.

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8. Commitments and Contingencies

Legal—The Company is currently involved in various legal actions and proceedings that arise from time to time and may be subject to similar or other legal and/or regulatory actions in the future. 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 the Company's results of operations, financial position, or liquidity.

In the fourth quarter of 2021, certain insurers paid $14.9 million on behalf of the Company and others to settle a wrongful death suit. The insurers contend they are entitled to seek reimbursement from the Company for some or all of such amounts, which the Company disputes. During October 2023, one of the insurers filed a lawsuit seeking reimbursement, however, at this time the Company is unable to estimate the amount or outcome of the insurers' claims against the Company. In addition, the Company is unable to estimate the amount or outcome of its recovery actions against relevant third parties.

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 $101.2 million and $114.9 million of performance bonds outstanding as of September 30, 2023 and December 31, 2022, respectively.

Warranty—Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Changes in the Company's warranty accrual are detailed in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Beginning warranty accrual	$ 46,227	$ 18,010	$ 46,657	$ 15,692
Warranty provision	2,988	1,359	5,162	4,602
Warranty payments	(3,547)	(1,118)	(6,151)	(2,043)
Ending warranty accrual	$ 45,668	$ 18,251	$ 45,668	$ 18,251

Operating Leases—The Company primarily enters into operating leases for the right to use office space, model homes, and computer and office equipment, which have remaining lease terms that range from 1 to 8 years and often include one or more options to renew. During December 2021, the Company sold model homes and immediately leased back these models. Certain of these model homes were not complete at the time of sale. All of the leases from the sale-leasebacks are accounted for as operating leases and are 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 9 – Related Party Transactions* for further detail. The weighted average remaining lease term as of September 30, 2023 and December 31, 2022 was5.8 and 5.7 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 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 September 30, 2023 and December 31, 2022 was 5.4% and 4.6%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of September 30, 2023, the Company had $12.9 million and $14.1 million recognized as a right-of-use asset and lease liability, respectively, which are presented on the consolidated balance sheets within other assets and accrued expenses and other liabilities, respectively. As of December 31, 2022, the Company had $ 15.6 million and $16.4 million recognized as a right-of-use asset and lease liability, respectively.

Operating lease expense for the three and nine months ended September 30, 2023 was $0.9 million and $2.8 million, respectively, and is included in general and administrative expenses on the consolidated statements of operations. For the three and nine months ended September 30, 2022 operating lease expense was $0.5 million and $1.6 million, respectively.

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Future minimum payments under the noncancelable operating leases in effect at September 30, 2023 were as follows *(dollars in thousands)*:

2023	$	1,042
2024		3,481
2025		2,582
2026		2,332
2027		2,101
Thereafter		4,737
Total lease payments		16,275
Less: Discount		(2,217)
Present value of lease liabilities	$	14,058

9. Related Party Transactions

The Company continues to pay for certain costs on behalf of Landsea Holdings. The Company records a due from affiliate balance for all such payments. As of September 30, 2023 and December 31, 2022, the Company had a net receivable due from affiliates balance of $3.4 million and $2.9 million, respectively.

In August 2023, the Company repurchased from the underwriters, at the public offering price of $9.75 per share, 800,000 shares of common stock that were sold by Green Investment Alpha Limited, a beneficial owner of the Company, in a registered secondary offering, for a total purchase price of $7.8 million. Green Investment Alpha Limited no longer qualifies as a related party upon the completion of the sale.

In June 2023, the Company repurchased from the underwriters, at the public offering price of $7.50 per share, 443,478 shares of common stock that were sold by Landsea Holdings, the Company's majority stockholder, in a registered secondary offering, for a total purchase price of $3.3 million.

In June 2022, the Company entered into two transactions with Landsea Holdings. On June 1, 2022, the Board of Directors authorized the Company to repurchase 4.4 million shares of common stock held by Landsea Holdings. The Company paid $30.0 million at a price of $6.82 per share, a discount of 5% compared to the closing price on May 31, 2022 of $7.18. Additionally, the Company repurchased all 5.5 million outstanding Private Placement Warrants, of which Landsea Holdings held 2.2 million. The Company paid Landsea Holdings $6.6 million at $3.00 per Private Placement Warrant. In addition, 2.8 million of the repurchased Private Placement Warrants were held by Level Field Capital, LLC, a related party that is controlled by a member of the Company's Board of Directors. The Company paid Level Field Capital, LLC $8.4 million at $3.00 per Private Placement Warrant. The Company's common stock and Warrants are discussed further in *Note 14 – Stockholders' Equity*.

In June 2022, Landsea Capital Fund, who is under common control with the Company, contributed $55.0 million to the LCF JV. The LCF JV, which is consolidated by the Company, used these proceeds to purchase undeveloped land from the Company. The Company distributed $ 6.7 million and $8.6 million to Landsea Capital Fund during the three and nine months ended September 30, 2023, respectively. All intercompany transactions between the Company and the LCF JV have been eliminated upon consolidation.

In December 2021, the Company sold model homes to a related party for total consideration of $15.2 million. Construction of certain of these model homes was not complete at the time of sale. The Company recognized lot sales and other revenue of $1.2 million during the nine months ended September 30, 2022 related to the model homes still under construction on the sale date. Corresponding lot and other cost of sales of $1.3 million was also recognized during the same period. No additional revenue or cost of sales related to this transaction were recognized during the three months ended September 30, 2022. The Company did not recognize any revenue or other cost of sales related to these model homes during the three and nine months ended September 30, 2023. As part of this transaction, the Company leased back these models. The total amount of rent payments made during the three and nine months ended September 30, 2023 is $0.2 million and $0.6 million, respectively. The total amount of rent payments made during the three and nine months ended September 30, 2022 is $0.2 million and $0.6 million, respectively. The right-of-use asset and lease liability balances associated with these leases is $0.7 million and $0.7 million, respectively, as of September 30, 2023 and $1.3 million and $1.3 million, respectively, as of December 31, 2022.

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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 may purchase, at the Company's discretion, the lots at a predetermined price of $28.9 million. The total amount of interest payments made during the three and nine months ended September 30, 2023 is $0.1 million and $0.5 million, respectively. The total amount of interest payments made during the three and nine months ended September 30, 2022 is $0.2 million and $0.8 million, respectively. During the three and nine months ended September 30, 2023, payments of $3.0 million and $7.0 million, including fees, have been made to purchase developed lots from the related party, respectively. During the three and nine months ended September 30, 2022, payments of $1.7 million and $7.9 million, including fees, were made to purchase developed lots from the related party, respectively. Capitalized interest included in real estate inventories on the consolidated balance sheets associated with this transaction was $0.9 million and $0.8 million as of September 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2023 was $0.4 million and $0.8 million, respectively. There was no previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2022.

Landsea Holdings holds a series of notes payable to affiliated entities of its parent. The cash Landsea Holdings received from this debt was previously utilized to partially fund operations of the Company. Related party interest incurred by Landsea Holdings 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 were not 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 (as defined below), the Company is precluded from repaying Landsea Holdings' notes payable to the affiliated entities of its parent. Therefore, beginning January 7, 2021, additional interest from these notes payable is no longer pushed down to the Company. Capitalized interest included in real estate inventories on the consolidated balance sheets associated with this transaction was $0.6 million and $2.2 million as of September 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2023 was $0.3 million and $1.6 million, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2022 was $0.7 million and $3.8 million, respectively.

10. Income Taxes

The effective tax rate of the Company was 24.4% and 24.5% for the three and nine months ended September 30, 2023, respectively, and 15.9% and 26.2% for the three and nine months ended September 30, 2022, respectively. The difference between the statutory tax rate and the effective tax rate for the nine months ended September 30, 2023 is primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation under Section 162(m), and tax credits for energy-efficient homes. The difference between the statutory tax rate and the effective tax rate for the nine months ended September 30, 2022 is primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, warrant fair market value adjustments, and tax credits for energy-efficient homes.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of the Company's deferred tax assets.

The Inflation Reduction Act ("IRA") of 2022 was enacted into law on August 16, 2022. The IRA introduced a 15% corporate alternative minimum tax on average annual adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases made by publicly traded US corporations after December 31, 2022. The IRA also retroactively extended the federal tax credit for building new energy-efficient homes for homes delivered from January 1, 2022 through December 31, 2032.

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11. 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 operations, including total revenue and pretax income 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 its 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 Corporate personnel and resources are primarily dedicated to activities relating to 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 by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Revenue				
Arizona	$ 69,308	$ 76,808	$ 215,000	$ 234,927
California	103,982	118,977	270,756	343,466
Florida	104,058	103,564	320,740	320,358
Metro New York	—	28,132	1,649	95,758
Texas	—	8,104	4,187	25,982
Total revenues	$ 277,348	$ 335,585	$ 812,332	$ 1,020,491
Pretax income (loss)				
Arizona	$ 5,253	$ 6,046	$ 4,826	$ 17,653
California	9,795	20,059	17,184	68,085
Florida	4,378	4,172	23,993	8,028
Metro New York	(917)	(810)	(1,818)	646
Texas	(1,383)	(215)	(4,144)	(93)
Corporate	(4,577)	(3,950)	(14,246)	(27,663)
Total pretax income	$ 12,549	$ 25,302	$ 25,795	$ 66,656

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The following table summarizes total assets by segment:

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Assets		
Arizona	$ 346,411	$ 357,788
California	545,670	513,549
Florida	432,565	422,045
Metro New York	42,249	45,277
Texas	54,669	26,923
Corporate	55,523	74,914
Total assets	$ 1,477,087	$ 1,440,496

Included in the Corporate segment assets is cash and cash equivalents of $21.3 million and $40.3 million as of September 30, 2023 and December 31, 2022, respectively.

As of September 30, 2023 and December 31, 2022, goodwill of $47.9 million and $20.7 million was allocated to the Florida and Arizona segments, respectively.

12. Fair Value

ASC 820, *Fair Value Measurement*, 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:

		September 30, 2023		December 31, 2022	
	Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		(dollars in thousands)			
Liabilities:					
Line of credit facility [1]	Level 2	$ 325,000	$ 325,000	$ 514,300	$ 514,300
Senior notes [2]	Level 2	$ 250,000	$ 242,500	$ —	$ —

(1) Carrying amount approximates fair value due to the variable interest rate terms of these loans. Carrying value excludes any associated discounts or deferred loan costs.
(2) Carrying amount, net of discount, approximates fair value due to the recency of the debt issuance. Carrying value excludes any associated discounts or deferred loan costs.

The carrying values of 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 and goodwill are measured at fair value on a non-recurring 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 nine months ended September 30, 2023, we

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determined that real estate inventories with a carrying value of $24.1 million within one community in our California segment was not expected to be fully recoverable. Accordingly, we recognized real estate inventories impairment charges of an aggregate $4.7 million to reflect the estimated fair value of the community of $19.4 million. No additional impairments were recorded during the three months ended September 30, 2023. The Company determined that none of the real estate inventories or goodwill required impairment during the three and nine months ended September 30, 2022. Refer to *Note 4 – Real Estate Inventories* for additional information.

Prior to being purchased by the Company in June 2022, the Private Placement Warrants were historically measured at fair value on a recurring basis using a Black-Scholes option pricing model.

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

	Nine Months Ended September 30,	
	2023	2022
Warrant liability	(dollars in thousands)	
Beginning balance	$ —	$ 9,185
Changes in fair value	—	7,315
Repurchases of warrants	—	(16,500)
Ending balance	$ —	$ —

13. Stock-Based Compensation

The following table presents a summary of the Company's nonvested performance share units ("PSUs") and restricted stock units ("RSUs") for the nine months ended September 30, 2023:

	Awards	Weighted Average Grant Date Fair Value
	(in thousands)	
Nonvested, at December 31, 2022	1,625	$ 8.82
Granted	298	8.28
Vested	(375)	8.68
Forfeited	—	—
Nonvested, at September 30, 2023	1,548	$ 8.75

The following table presents a summary of the Company's stock options activity for the nine months ended September 30, 2023:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Options outstanding at December 31, 2022	684	$ 8.82		
Granted	228	6.46		
Exercised	(4)	8.83		
Forfeited	(205)	8.73		
Options outstanding at September 30, 2023	703	$ 8.09	8.75	$ 636
Options exercisable at September 30, 2023	163	$ 8.82	8.36	$ 28

Stock-based compensation expense totaled $0.9 million and $2.2 million during the three and nine months ended September 30, 2023, respectively, and is included in general and administrative expenses on the consolidated statements of operations. For the three and nine months ended September 30, 2022, stock-based compensation expense was $0.9 million and $2.8 million, respectively.

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The following table presents a summary of the Company's outstanding RSUs and PSUs, assuming the current estimated level of performance achievement (in thousands, except years):

	September 30, 2023
	(in thousands, except period)
Unvested units	1,548
Remaining cost on unvested units	$ 2,995
Remaining vesting period	3.25 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 PSUs also incorporates the estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends.

14. 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 September 30, 2023, there were 41.4 million shares of common stock issued and 37.8 million outstanding, and no shares of preferred stock issued or outstanding. All outstanding shares of common stock are validly issued, fully paid and nonassessable.

Stock Repurchases

In January 2022, the Board of Directors authorized a stock repurchase program. The program allowed for the repurchase of up to $10.0 million worth of common stock, inclusive of associated fees. The authorization to effect stock repurchases expired on June 30, 2022, with no remaining capacity to repurchase common stock. In April 2022, the Board of Directors authorized an extension of the stock repurchase program for the repurchase of an additional $10.0 million of capacity to repurchase common stock, with an expiration of December 31, 2022. In June 2022, the Board of Directors authorized a repurchase of 4,398,826 shares of our common stock directly from the Company's majority shareholder for $30.0 million, or a per-share price of $6.82 per share.

During the nine months ended September 30, 2022, the Company repurchased 5,559,577 shares of common stock for a total of $40.0 million, which was recorded as a reduction to additional paid-in capital. A portion of these shares were repurchased directly from the Company's majority shareholder. Refer to *Note 9 – Related Party Transactions* for additional information. No shares were repurchased during the three months ended September 30, 2022. As of September 30, 2022, the Company had approximately $10.0 million in remaining authorized capacity.

In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of up to $10.0 million worth of common stock, with an expiration of December 31, 2023. In July 2023, the Board of Directors authorized additional capacity of approximately $3.3 million, with an expiration date of December 31, 2023, and an additional $10.0 million with no stated expiration date.

During the three and nine months ended September 30, 2023, the Company repurchased 1,391,867 and 2,360,736 shares of common stock for a total of $13.7 million and $21.2 million, respectively, which was recorded as a reduction to additional paid-in capital. A portion of these shares were repurchased directly from the Company's majority shareholder. Refer to *Note 9 – Related Party Transactions* for additional information. As of September 30, 2023, the Company had approximately $2.1 million in remaining authorized capacity.

In October 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of $20.0 million with no stated expiration date.

The timing and amount of repurchases are based on a variety of factors such as the market price of the Company's common stock, corporate and contractual requirements, market and economic conditions, and legal requirements.

The Inflation Reduction Act of 2022 included a 1% excise tax on stock repurchases, net of new stock issuances, beginning in 2023. The tax is expected to be paid annually and the Company accrues the tax during interim periods with the offset to additional paid-in capital on the consolidated balance sheet.

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Merger Transaction

On August 31, 2020, Landsea Homes and 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 LF Capital was changed at that time to Landsea Homes Corporation.

Upon closing of the Merger, Level Field Capital, LLC (the "Sponsor") held 1.0 million shares that were subject to surrender and forfeiture for no consideration in the event the common stock did not reach certain thresholds during the 24-month period following the closing of the Merger (the "Earnout Shares"). The Sponsor transferred 0.5 million Earnout Shares to Landsea Holdings. In January 2023, the Company concluded that the threshold for the Earnout Shares was not met and therefore those shares were forfeited and cancelled. Additionally, the Sponsor 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 Company's public warrants, are referred to as the "Warrants"). During the year ended December 31, 2022, the private placement warrants were repurchased by the Company and are no longer outstanding. Refer below for additional information.

Warrants

As of September 30, 2023, there were 15,525,000 outstanding Warrants consisting entirely of public warrants. At the time of the Merger, the Warrant Agreement was amended so that each public warrant is exercisable at $1.15 for one tenth of a share of common stock. As part of the amendment, each holder of the public warrants received $1.85 per warrant for a total of $28.7 million paid by the Company upon closing of the Merger. The Warrants will expire five years after the completion of the Merger or earlier upon redemption or liquidation.

The Company may call the public warrants for redemption:

- 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.

In June 2022, the Company repurchased all 5.5 million outstanding Private Placement Warrants, which were exercisable at $11.50 into one share of common stock. The Company paid $16.5 million, or $3.00 per warrant, to repurchase all of the outstanding Private Placement Warrants. This amount included $6.6 million for the repurchase of 2.2 million of the Private Placement Warrants that were held by the Company's majority shareholder, Landsea Holdings, and $8.4 million to Level Field Capital, LLC, a related party, for the repurchase of 2.8 million Private Placement Warrants. Refer to *Note 9 – Related Party Transactions* for additional information. The loss recognized on the repurchase of the Private Placement Warrants is recorded as loss on remeasurement of warrant liability on the Company's consolidated statements of operations.

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15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share ("EPS") for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands, except share and per share amounts)			
Numerator				
Net income attributable to Landsea Homes Corporation	$ 8,596	$ 19,970	$ 16,761	$ 47,970
Less: undistributed earnings allocated to participating shares	—	(487)	—	(1,094)
Net income attributable to common stockholders	$ 8,596	$ 19,483	$ 16,761	$ 46,876
Denominator				
Weighted average common shares outstanding - basic	38,336,100	40,935,152	39,402,507	43,768,269
Adjustment for weighted average participating shares outstanding	—	(1,000,000)	—	(1,000,000)
Adjusted weighted average common shares outstanding under two class method - basic	38,336,100	39,935,152	39,402,507	42,768,269
Dilutive effect of warrants	—	—	—	—
Dilutive effect of share-based awards	104,292	162,117	146,528	175,602
Adjusted weighted average common shares outstanding under two class method - diluted	38,440,392	40,097,269	39,549,035	42,943,871
Earnings per share				
Basic	$ 0.22	$ 0.49	$ 0.43	$ 1.10
Diluted	$ 0.22	$ 0.49	$ 0.42	$ 1.09

The Company excluded 2.0 million and 2.2 million common stock equivalents from diluted EPS related to antidilutive warrants, options, and share-based awards during the three and nine months ended September 30, 2023, respectively. The Company excluded 1.6 million common stock equivalents from diluted EPS during each of the three and nine months ended September 30, 2022.

16. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Nine Months Ended September 30,	
	2023	2022
	(dollars in thousands)	
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	$ —	$ —
Income taxes paid	$ 8,736	$ 32,454
Supplemental disclosures of non-cash investing and financing activities		
Change in right-of-use assets for new, modified, or terminated operating leases	$ 338	$ 3,660

17. Subsequent Event

On October 10, 2023, the Company expanded into the Colorado market by acquiring certain assets of Richfield Homes, LLC. The Company paid an aggregate cash purchase price of $22.5 million to acquire approximately 290 owned or controlled lots in the greater Denver, Colorado area, including any construction in progress on those lots.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with and is qualified in its entirety by the consolidated financial statements and notes thereto included elsewhere in this document. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the section entitled "Risk Factors" of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on March 9, 2023. This section discusses certain items in the three and nine months ended September 30, 2023 and 2022 and year-to-year comparisons between those periods. References to "we", "Landsea Homes", the "Company", "us", or "our" refer to Landsea Homes Corporation.

Consolidated Financial Data

The following table summarizes our unaudited results of operations for the three and nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands, except per share amounts)		*(dollars in thousands, except per share amounts)*	
Revenue				
Home sales	$ 258,062	$ 326,496	$ 790,199	$ 975,269
Lot sales and other	19,286	9,089	22,133	45,222
Total revenues	277,348	335,585	812,332	1,020,491
Cost of sales				
Home sales	209,753	258,362	647,642	770,220
Lot sales and other	13,309	10,737	15,770	40,546
Total cost of sales	223,062	269,099	663,412	810,766
Gross margin				
Home sales	48,309	68,134	142,557	205,049
Lot sales and other	5,977	(1,648)	6,363	4,676
Total gross margin	54,286	66,486	148,920	209,725
Sales and marketing expenses	16,930	21,063	51,672	64,366
General and administrative expenses	25,463	21,111	74,223	70,734
Total operating expenses	42,393	42,174	125,895	135,100
Income from operations	11,893	24,312	23,025	74,625
Other income (loss), net	656	990	2,770	(654)
Loss on remeasurement of warrant liability	—	—	—	(7,315)
Pretax income	12,549	25,302	25,795	66,656
Provision for income taxes	3,066	4,021	6,323	17,460
Net income	9,483	21,281	19,472	49,196
Net income attributable to noncontrolling interests	887	1,311	2,711	1,226
Net income attributable to Landsea Homes Corporation	$ 8,596	$ 19,970	$ 16,761	$ 47,970
Income per share:				
Basic	$ 0.22	$ 0.49	$ 0.43	$ 1.10
Diluted	$ 0.22	$ 0.49	$ 0.42	$ 1.09
Weighted average common shares outstanding:				
Basic	38,336,100	39,935,152	39,402,507	42,768,269
Diluted	38,440,392	40,097,269	39,549,035	42,943,871

Business Overview

Driven by a commitment to sustainability, we design and build homes and communities in Arizona, California, Florida, Metro New York, and Texas. 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.

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

We continue to capitalize on opportunities to shift inventory and product to more affordable offerings through our acquisition in Florida. In January 2022, we acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder, for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The Hanover acquisition increased our presence in Florida with a backlog of 522 units valued at $228.1 million as of the acquisition date. We believe this acquisition fits with and continues to advance our overall business strategy by expanding into new geographic and diverse markets.

On October 10, 2023, the Company expanded into the Colorado market by acquiring certain assets of Richfield Homes, LLC. The Company paid an aggregate cash purchase price of $22.5 million to acquire approximately 290 owned or controlled lots in the greater Denver, Colorado area, including any construction in progress on those lots.

During recent years, we saw significant increases in demand across our markets, fueled by historically low interest rates on mortgage loans and a generally tightening supply of homes for sale. This increased demand allowed us to increase prices and derive additional revenue from homes sales as we delivered more units than ever before. Supply chain issues, labor shortages, and the resulting cost increases partially offset some of the revenue growth that we experienced. Costs of construction of our homes have varied significantly over the past two years. During 2023, a significant portion of these supply chain and labor challenges have eased, however, recent increases, and the potential for future increases, in federal interest rates have put downward pressure on demand in our industry by reducing affordability for homebuyers across all of our markets.

While specific products are still occasionally difficult to procure, we expect to continue to manage this challenge by partnering with suppliers that can dedicate their attention and products to us, expanding our operational forecasts to assist in making purchase orders with sufficient lead time, using standard size products that are interchangeable, and holding select products on hand to ensure availability. The improvement in our supply chain is allowing us to be more strategic in the contracts we enter into and the vendors we use. We have seen improvements in our cycle time from beginning construction on a home to final delivery to the homebuyer, and we believe these steps will allow us to continue to shorten that cycle time.

Rising interest rates have put downward pressure on demand due to decreased affordability for many potential homebuyers across the nation. Challenges to affordability negatively impacted absorption and cancellation rates, particularly in the second half of 2022. During the first half of 2023, both metrics showed signs of improving and stabilizing, however continued inflation and federal interest rate increases, and the potential for future increases, have continued to cause affordability concerns and market uncertainty which could create further challenges across the homebuilding industry. We continue to monitor mortgage interest rates but are unsure of the length and magnitude of any future interest rate increases by the Federal Reserve which ultimately drive these rates. This has led us to respond to the current market by focusing sales and marketing efforts on addressing affordability and interest rates as well as providing certain purchase incentives, subject to managing our inventory levels in the market. We manage certain marketing programs nationwide, however the majority of incentives we offer are tailored to each community's circumstances. We regularly perform stress tests on our backlog to identify homebuyers that are most likely to cancel their sales contracts, without intervention, due to higher costs from rising interest rates. Additionally, through a licensing agreement, we partnered with NFM Lending as a preferred lender to provide mortgage services under the name Landsea Mortgage. In connection with this arrangement, we have focused many of our incentives on mortgage interest rates and assisting homebuyers with buydowns on their home loans. This has helped achieve certain goals related to sales pace and absorption, but the added discounts and incentives have lowered revenue and gross margins. We continue to monitor the credit worthiness of our homebuyers with NFM Lending to ensure as many of our sales as possible lead to successful home deliveries.

Strategy

Our strategy is focused on maximizing stockholder 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 sales, marketing, and general and administrative 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 total capital, earnings before interest, taxes, depreciation, and amortization ("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.

Summary Results of Operations

For the nine months ended September 30, 2023, home sales revenue decreased 19% to $790.2 million from $975.3 million and home deliveries decreased 12% to 1,459 units from 1,667 units, in each case as compared to the same period in the prior year. The decrease in home deliveries and home sales revenue year-over-year is primarily the result of a decrease in demand and affordability as mortgage interest rates have risen significantly compared to the prior year period. In addition, our Metro New York segment has nearly completed delivering homes at its one community, with only two units remaining to deliver. In total, our net income for the nine months ended September 30, 2023 was $19.5 million compared to $49.2 million in the corresponding prior year period.

We remain focused on growth and view our leverage ratios as a key factor in allowing us to expand. While we have grown organically and through 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 marginally to 44.1% as of September 30, 2023 compared to 41.6% as of December 31, 2022. We believe the continued strength of our balance sheet and operating platform have positioned 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 macro-economic environment. Accordingly, net orders, home deliveries, and average selling price ("ASP") can be negatively affected by economic conditions, such as rising interest rates, decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Shortages in labor or materials can also significantly increase costs, reduce gross margins, and lower our overall profitability. During the nine months ended September 30, 2023 we observed improved absorption rates compared to the same period in the prior year, primarily due to successful sales promotions that have helped generate sales, offset by interest rates remaining high and continued concerns about affordability. We are seeing signs of stabilization in metrics such as cancellation rates compared to the second half of 2022. Our results have been impacted, and could be further impacted, by continued challenges 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 ASP 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. Commentary on significant changes for each of the segments in these metrics is provided below.

	Three Months Ended September 30,											
	2023				2022				% 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	136	$ 59,444	$ 437	2.7	38	$ 15,397	$ 405	0.8	258 %	286 %	8 %	238 %
California	140	128,352	917	4.1	68	56,460	830	1.8	106 %	127 %	10 %	128 %
Florida	210	97,245	463	2.3	134	70,973	530	1.8	57 %	37 %	(13)%	28 %
Metro New York	—	—	N/A	—	7	13,472	1,925	2.3	N/A	N/A	N/A	N/A
Texas	—	—	N/A	—	10	9,172	917	1.7	N/A	N/A	N/A	N/A
Total	486	$ 285,041	$ 587	2.7	257	$ 165,474	$ 644	1.5	89 %	72 %	(9)%	80 %

	Nine Months Ended September 30,											
	2023				2022				% 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	474	$ 201,452	$ 425	3.2	310	$ 154,420	$ 498	2.6	53 %	30 %	(15)%	23 %
California	520	446,045	858	4.9	357	330,705	926	3.4	46 %	35 %	(7)%	44 %
Florida	551	240,269	436	2.1	728	350,029	481	3.0	(24 %)	(31 %)	(9)%	(30 %)
Metro New York	—	—	N/A	—	20	50,662	2,533	2.2	N/A	N/A	N/A	N/A
Texas	4	4,194	1,049	1.5	17	16,268	957	0.8	(76) %	(74) %	10 %	88 %
Total	1,549	$ 891,960	$ 576	3.0	1,432	$ 902,084	$ 630	2.9	8 %	(1 %)	(9)%	3 %

For both the three and nine months ended September 30, 2023, the increase in net new orders in Arizona compared to the prior year period was due to the implementation of sales programs during a challenging environment for affordability. Interest rates began to have a significant impact on our Arizona segment during the three months ended September 30, 2022, and resulted in a significant drop in net orders at that time. Although interest rates continue to be high compared to recent periods, the use of targeted incentives has lowered ASP during the nine months ended September 30, 2023, but drove a significant amount of business for the same period, resulting in an increase in net new orders.

In the California segment, the increase in net new orders for the three and nine months ended September 30, 2023, was primarily due to additional incentives which lowered ASP but provided positive results from the market compared to the corresponding prior periods. Like other markets, California began to see challenges from rising interest rates in the third quarter of 2022, but sales improved more quickly than in our other markets due to additional incentives and quick move-in homes, which have been subject to increased demand during the nine months ended September 30, 2023. There is still uncertainty about the long-term trends as consumers continue evaluating prices and overall payments in the current environment.

Our Florida segment was initially more resilient than our other segments to the interest rate and inflationary pressures seen across the company. However, we have seen an increased slowdown in this segment resulting from increased mortgage interest rates and decreased affordability during the nine months ended September 30, 2023 compared to the prior period. These challenges to affordability decreased the number of homes sales significantly. We continue to strive for the right balance between incentives and sales pace and are tailoring our current incentives and marketing to push for greater absorption in the market. Driven by these efforts, we experienced greater volume in this segment, while recognizing slightly lower ASPs, during the third quarter of 2023.

The Metro New York segment has nearly sold out its one remaining community, with only two units and a retail space remaining to sell and deliver as of September 30, 2023.

Prior to September 30, 2023, our Texas segment completed the sale and delivery of the lots acquired from Vintage Estate Homes ("Vintage") and we expect sales and deliveries to idle over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality of Landsea Homes' national brand.

Average Selling Communities

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Arizona	17.0	16.3	4 %	16.7	13.1	27 %
California	11.3	12.3	(8 %)	11.8	11.7	1 %
Florida	31.0	25.3	23 %	29.5	26.9	10 %
Metro New York	—	1.0	(100 %)	—	1.0	(100 %)
Texas	—	2.0	(100 %)	0.3	2.3	(87 %)
Total	59.3	57.0	4 %	58.3	55.0	6 %

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.

	Three Months Ended September 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	115	$ 50,314	$ 438	154	$ 69,690	$ 453	(25 %)	(28 %)	(3)%
California	115	103,982	904	128	118,978	930	(10) %	(13) %	(3)%
Florida	218	103,766	476	243	103,086	424	(10) %	1 %	12 %
Metro New York	—	—	N/A	11	28,132	2,557	N/A	N/A	N/A
Texas	—	—	N/A	7	6,610	944	N/A	N/A	N/A
Total	448	$ 258,062	$ 576	543	$ 326,496	$ 601	(17 %)	(21 %)	(4)%

	Nine Months Ended September 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	445	$ 193,438	$ 435	451	$ 200,881	$ 445	(1 %)	(4 %)	(2)%
California	315	270,756	860	389	342,217	880	(19) %	(21) %	(2)%
Florida	694	320,162	461	766	318,711	416	(9) %	— %	11 %
Metro New York	1	1,649	1,649	43	95,758	2,227	(98) %	(98) %	(26)%
Texas	4	4,194	1,049	18	17,702	983	(78) %	(76) %	7 %
Total	1,459	$ 790,199	$ 542	1,667	$ 975,269	$ 585	(12 %)	(19 %)	(7)%

Our Arizona segment delivered 115 homes and generated $50.3 million in home sales revenue for the three months ended September 30, 2023. The segment delivered 445 homes and generated $193.4 million in home sales revenue for the nine months ended September

30, 2023. The decrease in home deliveries, revenue, and ASP compared to the corresponding periods in 2022 was primarily the result of lower home sales and more significant incentives during recent periods. An increase in average selling communities and our ability to leverage existing inventory to support quick move-in homes that have been experiencing higher demand have helped to offset such decreases in our Arizona segment.

Our California segment delivered 115 homes and generated $104.0 million in home sales revenue for the three months ended September 30, 2023. The segment delivered 315 homes and generated $270.8 million in home sales revenue for the nine months ended September 30, 2023. The decrease in home deliveries, revenue, and ASP during the three and nine months ended September 30, 2023, compared to the corresponding periods in 2022 was driven primarily by the affordability challenges observed across the Company as those lower home sales and more significant incentives during recent periods.

Despite the decrease in home deliveries in Florida resulting from affordability concerns, ASP increased 12% and 11% during the three and nine months ended September 30, 2023, respectively, compared to the corresponding prior year period. This increase was the result of additional focus in communities with higher price points that remained relatively steady during the recent challenges stemming from higher mortgage interest rates and market uncertainty. Similar to our other segments, market uncertainty and concerns of affordability remain and could impact future results further.

The Metro New York segment has nearly sold out its one remaining community, with only two units and a retail space remaining to sell and deliver as of September 30, 2023.

Prior to September 30, 2023, our Texas segment completed the sale and delivery of the lots acquired from Vintage and we expect sales and deliveries to idle over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality and price points of Landsea Homes' national brand.

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, real estate inventories impairment, and purchase price accounting for acquired work in process inventory. We believe the below information is meaningful as it isolates the impact that indebtedness, real estate inventories impairment, and acquisitions have on the gross margins and allows for comparability to previous periods and competitors. See *Note 2 – Business Combinations* within the accompanying notes to the consolidated financial statements for additional discussion regarding acquired work in process inventory.

	Three Months Ended September 30,			
	2023	%	2022	%
	(dollars in thousands)			
Home sales revenue	$ 258,062	100.0 %	$ 326,496	100.0 %
Cost of home sales	209,753	81.3 %	258,362	79.1 %
Home sales gross margin	48,309	18.7 %	68,134	20.9 %
Add: Interest in cost of home sales	9,713	3.8 %	10,138	3.1 %
Add: Real estate inventories impairment	—	— %	—	— %
Adjusted home sales gross margin excluding interest and real estate inventories impairment[(1)]	58,022	22.5 %	78,272	24.0 %
Add: Purchase price accounting for acquired inventory	3,865	1.5 %	10,612	3.3 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory [(1)]	$ 61,887	24.0 %	$ 88,884	27.2 %

	Nine Months Ended September 30,			
	2023	%	2022	%
	(dollars in thousands)			
Home sales revenue	$ 790,199	100.0 %	$ 975,269	100.0 %
Cost of home sales	647,642	82.0 %	770,220	79.0 %
Home sales gross margin	142,557	18.0 %	205,049	21.0 %
Add: Interest in cost of home sales	21,531	2.7 %	31,224	3.2 %
Add: Real estate inventories impairment	4,700	0.6 %	—	— %
Adjusted home sales gross margin excluding interest and real estate inventories impairment[(1)]	168,788	21.4 %	236,273	24.2 %
Add: Purchase price accounting for acquired inventory	14,060	1.8 %	41,162	4.2 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory [(1)]	$ 182,848	23.1 %	$ 277,435	28.4 %

(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 decreased by 220 basis points and 300 basis points to 18.7% and 18.0% for the three and nine months ended September 30, 2023, respectively, compared to the corresponding periods in 2022. The decrease in both the three and nine month periods compared to the prior periods are primarily due to the need for additional sales discounts and incentives to drive continued sales and delivery activity in the current period, partially offset by significant costs in the prior year period related to purchase price accounting for acquired inventory. We also recorded a real estate inventories impairment during the nine months ended September 30, 2023 which decreased our gross margin. Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory decreased 320 basis points and 530 basis points to 24.0% and 23.1% for the three and nine months ended September 30, 2023, respectively, compared to the corresponding periods in 2022. Discounts and incentives increased significantly for the three and nine months ended September 30, 2023, compared to the prior year periods primarily related to mortgage interest rate buydowns on behalf of our home-buyers. This represented the primary driver for the decrease in adjusted gross margin period over period.

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.

	September 30, 2023			September 30, 2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
					(dollars in thousands)				
Arizona	134	$ 58,000	$ 433	281	$ 134,771	$ 480	(52) %	(57)%	(10)%
California	284	253,735	893	224	214,864	959	27 %	18 %	(7)%
Florida	342	171,004	500	767	374,953	489	(55) %	(54)%	2 %
Metro New York	—	—	N/A	2	5,591	2,796	N/A	N/A	N/A
Texas	—	—	N/A	11	10,914	992	N/A	N/A	N/A
Total	760	$ 482,739	$ 635	1,285	$ 741,093	$ 577	(41) %	(35)%	10 %

The decrease in the number of backlog homes and value as of September 30, 2023 as compared to September 30, 2022 was a product of the significant cancellation rates in the second half of 2022 resulting primarily from the spike in mortgage interest rates during that time, combined with the closings of existing inventory, including quick move-in terms demanded by customers. While we have seen demand and cancellations stabilize since the beginning of 2023, the current market environment remains uncertain and further challenges could persist.

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 three and nine months ended September 30, 2023, we recognized $19.3 million and $22.1 million, respectively, of lot sales and other revenue in our Arizona segment related to the sale and subsequent development of lots under contract. For the three and nine months ended September 30, 2022, we collectively recognized $9.1 million and $45.2 million, respectively, of lot sales and other revenue in our Arizona, Florida and Texas segments related to the sale and subsequent development of the lots and related homes under contract.

As of September 30, 2023 and December 31, 2022, we had contract assets of $6.3 million and $7.2 million, respectively, related to lot sales and other revenue. The contract asset balance is included in other assets on the Company’s consolidated balance sheets and 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 September 30, 2023 and December 31, 2022 was $3.7 million and $11.6 million, respectively.

As of September 30, 2023 the Company had $1.0 million of deferred revenue related to lot sales and other revenue included in accrued expenses and other liabilities in the Company’s consolidated balance sheets. As of December 31, 2022, the Company had no deferred revenue related to lot sales and other revenue. We recognize these amounts as development progresses and the related performance obligations are completed.

Lots Owned or Controlled

The table below summarizes the 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.

	September 30, 2023			September 30, 2022			
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	% Change
Arizona	1,833	1,534	3,367	2,302	2,191	4,493	(25 %)
California	718	1,415	2,133	628	1,948	2,576	(17 %)
Florida	2,388	1,606	3,994	2,420	1,978	4,398	(9 %)
Metro New York	2	—	2	7	—	7	(71 %)
Texas	130	1,577	1,707	18	918	936	82 %
Total	5,071	6,132	11,203	5,375	7,035	12,410	(10 %)

The total lots owned or controlled at September 30, 2023 decreased 10% from September 30, 2022. While we continue to deliver on owned homes and take possession of lots previously under contract, we are monitoring the market to appropriately manage future lot contracts relative to the current market. Our goal remains to maintain a strong balance sheet while entering into contracts for new lots when we are satisfied that the timing and metrics support our actions.

Results of Operations by Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pretax income (loss)	*(dollars in thousands)*		*(dollars in thousands)*	
Arizona	$ 5,253	$ 6,046	$ 4,826	$ 17,653
California	9,795	20,059	17,184	68,085
Florida	4,378	4,172	23,993	8,028
Metro New York	(917)	(810)	(1,818)	646
Texas	(1,383)	(215)	(4,144)	(93)
Corporate	(4,577)	(3,950)	(14,246)	(27,663)
Total	$ 12,549	$ 25,302	$ 25,795	$ 66,656

Our Arizona segment recorded pretax income of $5.3 million and $4.8 million in the three and nine months ended September 30, 2023, respectively, compared to pretax income of $6.0 million and $17.7 million in the comparable periods during 2022. The decrease in pretax income in both the three and nine months ended September 30, 2023 was primarily due to a decrease in revenue per home as additional incentives have been required to continue to close homes at our desired pace. Additionally, we have seen significant increases in costs of homes delivered, as more homes that were built during periods of especially high labor and material costs were completed during the current periods presented compared to the prior year periods.

Our California segment recorded pretax income of $9.8 million and $17.2 million for the three and nine months ended September 30, 2023, respectively, compared to a pretax income of $20.1 million and $68.1 million in the comparable periods in 2022. The decrease in both the three and nine months ended September 30, 2023, was due primarily to a comparative drop in deliveries period over period as well as increasing incentives seen across the Company as mortgage interest rates increased, challenging affordability, and driving down volume and gross margin. The California segment also had impacts from increased costs of homes delivered which decreased our gross margin during the current year periods presented compared to the prior year periods.

Our Florida segment recorded pretax income of $4.4 million and $24.0 million for the three and nine months ended September 30, 2023, respectively, compared to pretax income of $4.2 million and $8.0 million in the comparable periods in 2022. We expanded our Florida operations with the acquisition of Hanover in January 2022 and so the corresponding periods in the prior year included additional costs related to the integration and higher amortization of purchase price accounting for acquired inventory and the acquired tradename. During the three and nine months ended September 30, 2023, the Florida segment experienced a slowdown in demand similar to other segments, however in most cases, we observed that the increases in ASP equaled or exceeded the increases in costs.

The Metro New York segment had pretax loss of $0.9 million and $1.8 million for the three and nine months ended September 30, 2023, respectively, which decreased from pretax loss of $0.8 million and pretax income of $0.6 million in the comparable periods in 2022 as the prior nine month period included a significant number of deliveries during the first half of the year which provided positive gross margins for that segment. We continue to wind up the sales and deliveries activities in this segment.

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 dedicated to activities relating to the business's operations and are allocated accordingly. For the three months ended September 30, 2023, the loss allocated to Corporate increased by $0.6 million compared to the prior period primarily due to fluctuations in general and administrative ("G&A") expenses, see below for further explanation. The Corporate non-operating segment generated a smaller pretax loss year-to-date compared to the prior year period as the corresponding period in 2022 included a loss related to the fair value of the private placement warrants of $7.3 million. The warrants were repurchased in June 2022 and therefore there was no corresponding loss in the current period.

Sales, Marketing, and General and Administrative Expenses

	Three Months Ended September 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	(dollars in thousands)			
Sales and marketing expenses	$ 16,930	$ 21,063	6.6 %	6.5 %
General and administrative expenses	25,463	21,111	9.9 %	6.5 %
Total sales, marketing, and G&A expenses	$ 42,393	$ 42,174	16.5 %	13.0 %

	Nine Months Ended September 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	(dollars in thousands)			
Sales and marketing expenses	$ 51,672	$ 64,366	6.5 %	6.6 %
General and administrative expenses	74,223	70,734	9.4 %	7.3 %
Total sales, marketing, and G&A expenses	$ 125,895	$ 135,100	15.9 %	13.9 %

For the three and nine months ended September 30, 2023, sales and marketing expenses decreased compared to the prior year period primarily due to the slowing of volume and thus related commission and closing costs in the current period. This was partially offset by increases in wage costs and other operational costs in the G&A expenses as the Company continues to grow.

The sales, marketing, and general and administrative ("SG&A") expense rate as a percentage of home sales revenue for the three and nine months ended September 30, 2023, was 16.5% and 15.9%, an increase of 3.5% and 2.0% from the prior year periods, respectively. The SG&A expense rate increased primarily due to higher wage and operational costs as noted above, offset by cost savings on commissions, closings costs and professional fees. While we anticipate commissions and closings costs may rise in the near future as sales and deliveries increase, we expect to be able to further leverage our G&A base, including wages, and reduce the percentage of SG&A compared to home sales revenue in future periods.

Provision for Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2023, was a provision of $3.1 million and $6.3 million, respectively, compared to $4.0 million and $17.5 million for the three and nine months ended September 30, 2022. The effective tax rate for the three and nine months ended September 30, 2023, was 24.4% and 24.5%, respectively, compared to 15.9% and 26.2% for the three and nine months ended September 30, 2022. The difference between the statutory tax rate and the effective tax rate for the three and nine months ended September 30, 2023, was primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, and tax credits for energy-efficient homes. The difference between the statutory tax rate and the effective tax rate for the three and nine months ended September 30, 2022, was primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, warrant fair market value adjustments, and tax credits for energy-efficient homes.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

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. There have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 9, 2023.

Liquidity and Capital Resources

Overview

As of September 30, 2023, we had $144.4 million of cash, cash equivalents, restricted cash, and cash held in escrow, a $3.7 million increase from December 31, 2022. The change was primarily due to the sale of our Senior Notes (as defined below) and borrowings from notes and other debt payables offset by ordinary business activities as cash from home deliveries was primarily reinvested to acquire and construct additional real estate inventories. Cash held in escrow represents closings happening immediately before quarter-end in which we received the funds from the title company subsequent to September 30, 2023.

Our principal sources of capital are cash generated from home and land sales activities, borrowings under our credit facility and proceeds from the sale of our Senior Notes. Principal uses of capital are land purchases, land development, home construction, repayments on the credit facility, 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 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 September 30, 2023, we had outstanding borrowings of $575.0 million in aggregate principal, excluding discount and deferred loan costs, and had $245.0 million in additional borrowing capacity under our credit facility. We will consider several 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 facility contains certain financial covenants, among other things, 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 our credit facility or through accessing debt or equity capital as needed.

Credit Facility

In October 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 $675.0 million of which there was $325.0 million outstanding as of September 30, 2023. The Company may increase the borrowing capacity up to $850.0 million, under certain circumstances. Funds available under the Credit Agreement are subject to a borrowing base requirement which is calculated on specified percentages of our real estate inventories. Borrowings under the Credit Agreement bear interest at the Secured Overnight Financing Rate ("SOFR") plus 3.35% or the Prime Rate (as defined in the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of the London Interbank Offered Rate ("LIBOR") with SOFR as an index rate, and an extension of the maturity date to October 2025. As of September 30, 2023, the interest rate on the loan was 8.68%. In July 2023, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

Senior Notes

In July 2023, the Company entered into a new senior unsecured note (the "Note Purchase Agreement"). The Note Purchase Agreement provided for the private placement of $250.0 million aggregate principal amount of 11% senior notes (the "Senior Notes"). The Company received the proceeds, net of discount and fees, in July 2023. The Senior Notes mature in July 2028.

Financial Covenants

The Credit Agreement and Note Purchase Agreement have certain financial covenants, including requirements for us 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.

	September 30, 2023		December 31, 2022	
Financial Covenants	**Actual**	**Covenant Requirement**	**Actual**	**Covenant Requirement**
	(dollars in thousands)		*(dollars in thousands)*	
Minimum Liquidity Covenant	$ 494,447	$ 50,000	$ 301,435	$ 50,000
Interest Coverage Ratio - Adjusted EBITDA to Interest Incurred	2.88	2.00	4.76	1.75
Tangible Net Worth	$ 632,807	$ 394,253	$ 641,636	$ 394,253
Maximum Leverage Ratio [(1)]	40.7 %	<60%	37.8 %	<60%

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

The Credit Agreement and Note Purchase Agreement 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. They 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 September 30, 2023, we were in compliance with all related covenants.

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. We had $101.2 million and $114.9 million of performance bonds outstanding at September 30, 2023 and December 31, 2022, respectively.

Cash Flows—Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

For the nine months ended September 30, 2023 and 2022, the comparison of cash flows is as follows:

- Net cash provided by operating activities was $2.1 million during the nine months ended September 30, 2023 compared to net cash used in operating activities of $83.2 million during the same period in 2022. The increase in net cash provided by operating activities was primarily due to less cash being used in our real estate inventories construction and a positive rather than negative cash flow from other assets compared to the prior period. We used $34.7 million less for real estate inventories compared to the prior period. In addition, cash from other assets was $31.8 million during the nine months ended September 30, 2023, compared to a use of $46.9 million in the prior period, primarily related to funds placed in escrow for the purchase of real estate inventory in the prior period that were closed on in the current period. An increase of $9.3 million in net cash collected from cash held in escrow compared to the prior period also contributed to the increase in our net cash provided by operating activities. These changes were partially offset by a decrease in net income, adjusted for noncash operating components of net income, of $33.0 million.

- Net cash used in investing activities was $5.5 million during the nine months ended September 30, 2023, compared to $262.2 million during the same period in 2022. This difference was related to payments of $258.7 million, net of cash received from working capital adjustments, for our acquisition of Hanover in January 2022, while we did not acquire any businesses in the current period.

- Net cash provided by financing activities was $13.3 million during the nine months ended September 30, 2023, compared to $112.4 million during the same period in 2022. The decrease was primarily due to a decrease in net borrowings on notes and other debts payable of $68.2 million during the nine months ended September 30, 2023, as compared to the prior period in 2022. Additionally, we received contributions of $55.0 million from a noncontrolling interest to fund a consolidated joint venture that was formed in the nine months ended September 30, 2022. These changes were partially offset by a decrease in cash paid for stock repurchases of $19.0 million compared to the prior period and the payment of $16.5 million to repurchase outstanding private placement warrants in the prior period.

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 September 30, 2023, we had outstanding purchase and option contracts totaling $624.4 million, net of $98.4 million related cash deposits (of which $0.4 million is refundable) 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

As of September 30, 2023, there had been no material changes to our known contractual and other obligations appearing in the “Material Cash Requirements” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 9, 2023.

Stock Repurchases

In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of up to $10.0 million worth of common stock, with an expiration of December 31, 2023. In July 2023, the Board of Directors authorized additional capacity of approximately $3.3 million, with an expiration date of December 31, 2023, and an additional $10.0 million with no stated expiration date.

During the three and nine months ended September 30, 2023, the Company repurchased 1,391,867 and 2,360,736 shares of common stock for a total of $13.7 million and $21.2 million, respectively, which was recorded as a reduction to additional paid-in capital. A portion of these shares were repurchased directly from the Company’s majority shareholder. Refer to *Note 9 – Related Party*

Transactions for additional information. As of September 30, 2023, the Company had approximately $2.1 million in remaining authorized capacity.

In October 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of $20.0 million with no stated expiration date.

The timing and amount of repurchases are based on a variety of factors such as the market price of the Company's common stock, corporate and contractual requirements, market and economic conditions, and legal requirements.

The Inflation Reduction Act of 2022 included a 1% excise tax on stock repurchases, net of new stock issuances, beginning in 2023. The tax is expected to be paid annually and the Company accrues the tax during interim periods with the offset to additional paid-in capital on the consolidated balance sheet.

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 total 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 financial measures 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 Total Capital

The following table presents the ratio of debt to capital as well as the ratio of net debt to total 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 total 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 total capital. The most comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to total 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 total 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.

	September 30, 2023	December 31, 2022
	(dollars in thousands)	
Total notes and other debts payable, net	$ 552,393	$ 505,422
Total equity	701,447	710,319
Total capital	$ 1,253,840	$ 1,215,741
Ratio of debt to capital	44.1 %	41.6 %
Total notes and other debts payable, net	$ 552,393	$ 505,422
Less: cash, cash equivalents, and restricted cash	133,491	123,634
Less: cash held in escrow	10,956	17,101
Net debt	407,946	364,687
Total capital	$ 1,253,840	$ 1,215,741
Ratio of net debt to total capital	32.5 %	30.0 %

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022. 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) real estate inventories impairment, (v) purchase accounting adjustments for acquired work in process inventory related to business combinations, (vi) loss on debt extinguishment or forgiveness, (vii) transaction costs related to business combinations, (viii) write-off of deferred offering costs, (ix) abandoned projects costs, (x) the impact of income or loss allocations from our unconsolidated joint ventures, and (xi) 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.

	Three Months Ended September 30,	
	2023	2022
	(dollars in thousands)	
Net income	$ 9,483	$ 21,281
Provision for income taxes	3,066	4,021
Interest in cost of sales	10,006	10,150
Depreciation and amortization expense	1,221	1,382
EBITDA	23,776	36,834
Purchase price accounting in cost of home sales	3,865	10,612
Transaction costs	600	—
Abandoned project costs	433	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(70)
Adjusted EBITDA	$ 28,674	$ 47,376

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	(dollars in thousands)	
Net income	$ 19,472	$ 49,196
Provision for income taxes	6,323	17,460
Interest in cost of sales	21,878	31,276
Interest relieved to equity in net income of unconsolidated joint ventures	—	70
Depreciation and amortization expense	3,778	4,445
EBITDA	51,451	102,447
Real estate inventories impairment	4,700	—
Purchase price accounting in cost of home sales	14,060	41,162
Transaction costs	633	1,205
Write-off of offering costs	436	—
Abandoned project costs	745	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(209)
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Adjusted EBITDA	$ 72,025	$ 154,416

Adjusted Net Income

Adjusted Net Income attributable to Landsea Homes is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating 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 attributable to Landsea Homes 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, loss on debt extinguishment or forgiveness, real estate inventories impairment, and 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 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.

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
	(dollars in thousands)	
Net income attributable to Landsea Homes Corporation	$ 8,596	$ 19,970
Pre-Merger capitalized related party interest included in cost of sales	324	714
Equity in net income of unconsolidated joint ventures	—	(70)
Purchase price accounting for acquired inventory	3,865	10,612
Total adjustments	4,189	11,256
Tax-effected adjustments [1]	3,088	8,270
Adjusted net income attributable to Landsea Homes Corporation	$ 11,684	$ 28,240

	Nine Months Ended September 30, 2023	2022
	(dollars in thousands)	
Net income attributable to Landsea Homes Corporation	$ 16,761	$ 47,970
Real estate inventories impairment	4,700	—
Pre-Merger capitalized related party interest included in cost of sales	1,587	3,831
Equity in net income of unconsolidated joint ventures	—	(139)
Purchase price accounting for acquired inventory	14,060	41,162
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Total adjustments	20,347	54,665
Tax-effected adjustments (1)	14,997	44,599
Adjusted net income attributable to Landsea Homes Corporation	$ 31,758	$ 92,569

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

The following is an extract of the audited financial statements of Landsea Homes Corporation for the year ended 31 December 2022, which were prepared in accordance with U.S. GAAP, from the 2022 Annual Report on Form 10-K of Landsea Homes Corporation issued on 9 March 2023.

The 2022 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://ir.landseahomes.com/sec-filings/all-sec-filings/content/0001721386-23-000005/0001721386-23-000005.pdf

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, 2022 and 2021 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 2022 compared to 2021. For similar discussion of our 2021 results compared year over year to our 2020 results, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the fiscal year ended December 31, 2021 in our Annual Report on Form 10-K filed on March 16, 2022.

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, 2022 and 2021.

	Year Ended December 31, 2022	2021
	(in thousands, except share and per share amounts)	
Revenue		
Home sales	$ 1,392,750	$ 936,400
Lot sales and other	53,699	86,904
Total revenue	1,446,449	1,023,304
Cost of sales		
Home sales	1,108,204	772,575
Lot sales and other	51,321	68,131
Total cost of sales	1,159,525	840,706
Gross margin		
Home sales	284,546	163,825
Lot sales and other	2,378	18,773
Total gross margin	286,924	182,598
Sales and marketing expenses	89,305	52,840
General and administrative expenses	89,325	70,266
Total operating expenses	178,630	123,106
Income from operations	108,294	59,492
Other (expense) income, net	(63)	3,886
Equity in net income of unconsolidated joint ventures	149	1,262
(Loss) gain on remeasurement of warrant liability	(7,315)	2,090
Pretax income (loss)	101,065	66,730
Provision for income taxes	25,400	13,995
Net income	75,665	52,735
Net income (loss) attributable to noncontrolling interests	2,114	(51)
Net income attributable to Landsea Homes Corporation	$ 73,551	$ 52,786
Earnings per share:		
Basic	$ 1.71	$ 1.14
Diluted	$ 1.70	$ 1.14
Weighted average shares outstanding:		
Basic	42,052,696	45,198,722
Diluted	42,199,462	45,250,718

Business Overview

Driven by a commitment to sustainability, we design and build 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.

We 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, a Florida-based homebuilder for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The aggregate purchase price included a pay-off of $69.3 million related to debt held by Hanover and a payment of $15.6 million for land-related deposits. The total assets of Hanover included approximately 20 development projects and 3,800 lots in various stages of development.

During recent years, we saw significant increases in demand across our markets, fueled by historically low interest rates on mortgage loans and a generally tightening supply of homes for sale. This increased demand allowed us to increase prices and derive additional revenue from homes sales, as we delivered more units than ever before. Supply chain issues, labor shortages, and the resulting cost increases partially offset some of the revenue growth that we experienced. Even as we anticipate some of these supply chain and labor challenges easing, recent increases in federal interest rates have put downward pressure on demand in our industry by reducing affordability for homebuyers across all of our markets. We continue to observe trends away from the exceptionally strong homebuilding market of the last two years towards higher rates and other conditions that we believe may be more aligned with historical norms but which could create further challenges across the homebuilding industry.

Costs of construction of our homes have varied significantly over the past two years. Supply chain issues primarily originating from the COVID-19 pandemic are showing signs of easing. Products previously back ordered or at higher than normal prices have begun to normalize and we have generally been able to obtain more favorable terms and conditions for contracted supplies and labor. While specific products are still difficult to procure at times, we expect to manage this challenge by partnering with suppliers that can dedicate their attention and products to us, expanding our operational forecasts to assist in making purchase orders with sufficient lead time, using standard size products that are interchangeable, and holding select products on hand to ensure availability. We believe these steps will allow us to stabilize our cycle time from beginning construction on a home to final delivery to the homebuyer.

Rising interest rates have put downward pressure on demand due to decreased affordability for many potential homebuyers across the nation. We have seen cancellations rise over the last two quarters primarily as a result of increasing interest rates. We continue to monitor mortgage interest rates but are unsure of the length and magnitude of any future interest rate increases by the Federal Reserve which ultimately drive these rates. We believe our customers generally understand the market and the current interest rate environment. This has led us respond to the current market by focusing sales and marketing efforts on addressing affordability and interest rates as well as providing certain purchase incentives, subject to managing our inventory levels in the market. While we do manage certain marketing programs nationwide, the majority of incentives we offer are specific and tailored to each community's circumstances. We regularly perform stress tests on our backlog to identify homebuyers that are most likely to cancel sales contracts without intervention due to higher costs from rising interest rates. Additionally, we have partnered with NFM Lending as a preferred lender and monitor the credit worthiness of our homebuyers to ensure as many of our sales lead to successful home deliveries as possible. In July 2022, we entered into a licensing agreement with NFM Lending wherein it will provide mortgage services under the name Landsea Mortgage.

We continue to capitalize on opportunities to shift inventory and product to more affordable offerings through our recent growth resulting from acquisitions in Florida and Texas. In May 2021, we completed the acquisition of Vintage, a Florida and Texas based homebuilder. The Vintage acquisition added our Florida and Texas reportable segments. In January 2022, we completed the acquisition of Hanover, a Florida-based homebuilder. The Hanover acquisition increased our presence in Florida with a backlog of 522 units valued at $228.1 million as of the acquisition date. We believe these acquisitions fit with and continue to advance our overall business strategy by expanding into new geographic and diverse markets.

Strategy

Our 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 sales, marketing, and general and administrative 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 total capital, earnings before interest, taxes, depreciation, and amortization ("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 2022, home sales revenue increased 49% to $1,392.8 million from $936.4 million and home deliveries increased 45% to 2,370 units from 1,640 units, in each case as compared to the same period in the prior year. The increase in home deliveries and home sales revenue year-over-year is derived primarily from our Florida segment due to the recent acquisitions in that segment. We had 1,106 home deliveries generating revenue of $473.1 million from our Florida segment in 2022. In addition, our Metro New York segment began delivering homes in 2022 at its one active community, adding home sales revenue of $111.4 million. In total, our net income for the year ended December 31, 2022 was $75.7 million compared to $52.7 million in the corresponding prior period.

We remain focused on growth and view our ability to obtain additional financing as needed as a key factor in allowing us to expand. Even as we have 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 decreased to 41.6% as of December 31, 2022 compared to 42.6% as of December 31, 2021, while growing our real estate inventories to $1,093.4 million from $844.8 million as of the same time periods. We believe the strength of our balance sheet and operating platform have positioned 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 ASP can be negatively affected by economic conditions, such as rising interest rates, decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Shortages in labor or materials can also significantly increase costs, reduce gross margins, and lower our overall profitability. During the first half of 2022, we experienced increases in our production cycle times due to labor and material shortages that caused us to reduce our absorption rate in certain markets, mainly in our Arizona segment. During the second half of 2022, we observed downward pressure on demand in most markets as absorption rates dipped, primarily due to higher interest rates and concerns about affordability. Our results have been impacted, and could be further impacted, by continued challenges 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,											
	2022				2021				% 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	296	$ 143,371	$ 484	1.9	685	$ 284,474	$ 415	4.5	(57)%	(50)%	17 %	(58) %
California	395	354,656	898	3.2	631	563,922	894	4.6	(37)%	(37)%	— %	(30) %
Florida (1)	786	380,396	484	2.5	138	65,046	471	1.9	470 %	485 %	3 %	32 %
Metro New York	23	62,333	2,710	2.4	25	50,687	2,027	3.0	(8)%	23 %	34 %	(20) %
Texas (1)(2)	20	18,824	941	0.8	(8)	(692)	N/A	(0.5)	N/A	N/A	N/A	(260) %
Total	1,520	$ 959,580	$ 631	2.4	1,471	$ 963,437	$ 655	3.8	3 %	— %	(4)%	(37) %

(1) Monthly absorption rates for Florida and Texas in 2021 are based on eight months for the time subsequent to the acquisition of Vintage in May 2021.
(2) The ASP calculation for our Texas segment in 2021, as well as the percent changes from that period, are not meaningful due to cancellations exceeding sales as contracts were renegotiated. Our seven new sales contracts during the period from acquisition to December 31, 2021 had an ASP of $1,121 thousand.

The decrease in Arizona is primarily due to increased mortgage interest rates that increased cancellations and slowed sales in the second half of 2022. During the first half of 2022, our production cycle was extended due to constraints in our production processes from labor and material shortages for homes currently under construction. The year-over-year change in dollar value of net new home orders in Arizona is less impacted due to a 17% increase in ASP during the year ended December 31, 2022. 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, 2022, the decrease in net new orders in California was primarily due to decreased demand as higher interest rates negatively impacted affordability. While not as pronounced as our other segments, California experienced higher cancellations and a slowdown in demand which we believe is due to consumers evaluating prices in the current environment, particularly during the second half of 2022.

We began operations in the Florida segment in May 2021 following the acquisition of Vintage and expanded our operations with the acquisition of Hanover in January 2022. We have seen significant growth year-over-year in Florida as a result of the acquisition of Hanover. However, we have seen increased interest rates impact demand in Florida causing downward pressure on sales, similar to other markets.

The Metro New York segment began selling homes at its one active community during the second quarter of 2021 and expects to complete sales at that community in 2023.

Our Texas segment began operations with the acquisition of Vintage in May 2021. During the year ended December 31, 2021, our Texas segment had eight net cancellations due to renegotiating old sales contracts that did not reflect current costs. As of December 31, 2022 we have sold and delivered nearly all of the lots acquired from Vintage and expect to see sales and deliveries drop over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality of Landsea Homes' national brand.

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,		
	2022	2021	% Change
Arizona	12.7	12.6	1 %
California	10.3	11.4	(10) %
Florida [(1)]	26.7	9.0	197 %
Metro New York	0.8	0.7	14 %
Texas [(1)]	2.2	2.0	10 %
Total	52.7	32.0	65 %

(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.

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,								
	2022			2021			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	613	$ 274,512	$ 448	771	$ 276,174	$ 358	(20) %	(1)%	25 %
California	572	502,583	879	617	553,957	898	(7) %	(9)%	(2)%
Florida	1,106	473,059	428	232	87,991	379	377 %	438 %	13 %
Metro New York	47	111,424	2,371	—	—	N/A	N/A	N/A	N/A
Texas	32	31,172	974	20	18,278	914	60 %	71 %	7 %
Total	2,370	$ 1,392,750	$ 588	1,640	$ 936,400	$ 571	45 %	49 %	3 %

During 2022, the Arizona segment delivered 613 homes with an ASP of $0.4 million and generated $274.5 million in home sales revenue. The decrease in home closings and home sales revenue compared to the prior year was primarily attributable to production delays and a decrease in the absorption rate that we believe relates to buyers' growing concerns around higher interest rates. This decrease was partially offset by an increase in ASP of 25% for the year ended December 31, 2022 compared to 2021. 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.

During 2022, the California segment delivered 572 homes with an ASP of $0.9 million and generated $502.6 million in home sales revenue. The year-over-year decrease in home sales revenue and deliveries in the California segment of 9% and 7%, respectively, was primarily the result of higher interest rates leading buyers to cancel sales contracts rather than going through with closing the home. 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 prior period as we strategically shift to building homes with a more attainable price point.

We began operations in the Florida segment in May 2021 following the acquisition of Vintage and expanded our operations with the acquisition of Hanover in January 2022. Along with large increases in home deliveries and related revenue in Florida due to the acquisition of Hanover, the Florida ASP increased 13% during the year ended December 31, 2022 compared to the corresponding prior year period due to the Hanover acquisition, which included homes in Orlando-area communities with higher price points.

The Metro New York segment delivered its first homes during 2022. The higher price point of the segment generates a significantly higher ASP than our other offerings. As of December 31, 2022 there are three residential units and one retail unit remaining to be sold.

Texas operations began in May 2021 with the acquisition of Vintage. The home 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. As of December 31, 2022 we have sold and delivered nearly all of the lots acquired from Vintage and expect to see sales and deliveries drop over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality of Landsea Homes' national brand.

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 and purchase price accounting for acquired work in process inventory. 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 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,			
	2022	%	2021	%
	(dollars in thousands)			
Home sales revenue	$ 1,392,750	100.0 %	$ 936,400	100.0 %
Cost of home sales	1,108,204	79.6 %	772,575	82.5 %
Home sales gross margin	284,546	20.4 %	163,825	17.5 %
Add: Interest in cost of home sales	40,192	2.9 %	33,328	3.6 %
Add: Inventory impairments	—	— %	—	— %
Adjusted home sales gross margin excluding interest and inventory impairments (1)	324,738	23.3 %	197,153	21.1 %
Add: Purchase price accounting for acquired inventory	50,412	3.6 %	14,588	1.6 %
Adjusted home sales gross margin excluding interest, inventory impairments, and purchase price accounting for acquired inventory (1)	$ 375,150	26.9 %	$ 211,741	22.6 %

(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 17.5% for the year ended December 31, 2021 to 20.4% for the year ended December 31, 2022 primarily due to home sales price appreciation amid high product demand, most notably in our California segment but in our Arizona and Florida segments as well. This growth was partially offset by increasing material and labor costs as well as increased incentives during the second half of the year.

Adjusted home sales gross margin excluding interest, inventory impairments, and purchase price accounting for acquired inventory increased from 22.6% for the year ended December 31, 2021 to 26.9% for the year ended December 31, 2022 due to the high margins in our Florida segment when excluding purchase price accounting. The purchase price accounting for acquired inventory is a result of the recent business combinations. The change also reflects the home sales price appreciation described above.

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, 2022			December 31, 2021			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
					(dollars in thousands)				
Arizona	105	$ 49,986	$ 476	422	$ 181,232	$ 429	(75)%	(72)%	11 %
California	79	78,446	993	256	226,376	884	(69)%	(65)%	12 %
Florida [1]	485	250,897	517	283	115,538	408	71 %	117 %	27 %
Metro New York	1	1,597	1,597	25	50,687	2,027	(96)%	(97)%	(21)%
Texas	—	—	N/A	12	12,348	1,029	N/A	N/A	N/A
Total	670	$ 380,926	$ 569	998	$ 586,181	$ 587	(33)%	(35)%	(3)%

(1) Backlog acquired in Florida at the date of the Hanover acquisition was 522 homes with a value of $228,097 thousand.

The decrease in the number of backlog homes and the backlog value as of December 31, 2022 as compared to December 31, 2021 is primarily attributable to the downward demand and price pressure from rising mortgage interest rates as seen in the net new home orders. The growth in Florida is primarily attributable to the Hanover acquisition.

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, 2022 and 2021 we recognized $53.7 million and $86.9 million in lot sales and other revenue, respectively. The decrease in gross margin on our lot sales was primarily due to increased costs during the year at projects with fixed contract prices.

As of December 31, 2022 and 2021, we had contract assets of $7.2 million and $6.1 million, respectively, related to lot sales and other revenue. The contract asset balance is included in other assets on the Company's consolidated balance sheets and 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, 2022 and 2021 was $11.6 million and $63.9 million, respectively.

As of December 31, 2021, the Company had $4.0 million of deferred revenue from lot sales and other revenue included in accrued expenses and other liabilities in the Company's consolidated balance sheets. We recognize these amounts as development progresses and the related performance obligations are completed. As of December 31, 2022, we had no deferred revenue.

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, 2022			December 31, 2021			
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	% Change
Arizona	2,187	1,992	4,179	3,274	1,124	4,398	(5) %
California	559	1,714	2,273	813	1,093	1,906	19 %
Florida	2,530	1,521	4,051	966	457	1,423	185 %
Metro New York	3	—	3	50	—	50	(94) %
Texas	4	1,083	1,087	45	918	963	13 %
Total	5,283	6,310	11,593	5,148	3,592	8,740	33 %

The total lots owned or controlled at December 31, 2022 were up 33% from December 31, 2021, primarily due to the acquisition of Hanover, which added approximately 3,800 lots owned or controlled.

Results of Operations and Assets by Segment

	Year Ended December 31,	
	2022	2021
Pretax income (loss)	*(dollars in thousands)*	
Arizona	$ 18,232	$ 25,681
California	94,213	61,073
Florida	20,798	(492)
Metro New York	(520)	(2,154)
Texas	(158)	(439)
Corporate	(31,500)	(16,939)
Total	$ 101,065	$ 66,730

	December 31,	
	2022	2021
Assets	*(dollars in thousands)*	
Arizona	$ 357,788	$ 360,598
California	513,549	400,292
Florida	422,045	102,158
Metro New York	45,277	124,962
Texas	26,923	35,984
Corporate	74,914	241,520
Total	$ 1,440,496	$ 1,265,514

Our Arizona segment recorded pretax income of $18.2 million during the year ended December 31, 2022 compared to $25.7 million during the year ended December 31, 2021. The decrease in pretax income in 2021 is primarily due to the challenges experienced in the Arizona market during 2022. Despite a strong market in the first half of the year with rising demand and prices, the first half of the year also included supply chain and production challenges. The second half of the year saw demand drawback as interest rates rose and decreased affordability led to an increase in cancellations.

Our California segment recorded pretax income of $94.2 million during the year ended December 31, 2022 compared to $61.1 million during the year ended December 31, 2021. The increase was partially due to increasing demand, particularly during the first half of the year. This allowed us to increase pricing, which resulted in an increase in gross margins, combined with a shift in product mix that slightly lowered our overall ASP in California but also reduced the cost of the homes delivered. The California segment results were impacted by increasing interest rates during the second half of the year and saw cancellations rise moderately.

Florida operations began in May 2021 with the acquisition of Vintage and we expanded our Florida operations with the acquisition of Hanover in January 2022. Since the acquisition of Hanover, we have seen significant growth in home sales revenue and deliveries over the year with a higher ASP than the prior year. The impact from mortgage interest rates slowed demand in the final quarter of 2022, however the impact of resulting cancellations has been less impactful to the Florida segment than some of our other segments.

The Metro New York segment experienced a decrease in pretax loss during the year ended December 31, 2022 as compared to the same prior period, due to our consolidated project, which began delivering homes in 2022. This was partially offset by less income from our unconsolidated joint venture as the LS-NJ Port Imperial JV LLC (“Avora”) project wrapped up.

Texas operations began in May 2021 with the acquisition of Vintage. As of December 31, 2022 we have sold and delivered nearly all of the lots acquired from Vintage and expect to see sales and deliveries drop over the short-term as we pivot the Texas segment toward new projects from recent land acquisitions.

We have also identified our Corporate operations as a non-operating segment, as it serves to support the segments’ operations through functional departments such as executive, finance, treasury, human resources, accounting, and legal. The majority of our Corporate personnel and resources are primarily dedicated to activities relating to the segments’ operations and are allocated accordingly. The Corporate non-operating segment generated a consistent pretax loss comparable to the prior period.

Selling, General, and Administrative Expenses

	Year Ended December 31,		As a Percentage of Home Sales Revenue	
	2022	2021	2022	2021
	(dollars in thousands)			
Sales and marketing expenses	$ 89,305	$ 52,840	6.4 %	5.6 %
General and administrative expenses	89,325	70,266	6.4 %	7.5 %
Total operating expenses	$ 178,630	$ 123,106	12.8 %	13.1 %

For the year ended December 31, 2022, sales, marketing, and general and administrative (“SG&A”) expenses increased compared to the prior year period due to the Company’s organic business growth and expansion through acquisitions. The increase is primarily due to higher closing costs and commissions, higher wages due to increases in headcount including acquisitions and upward pressure on wages, as well as higher professional fees partially offset in the year ended December 31, 2021 by a decrease in transaction costs as significant transaction costs were incurred related to the Merger.

The SG&A expense rate as a percentage of home sales revenue for the year ended December 31, 2022 was 12.8%, a decrease of 0.3% from the prior year period. The decrease in the SG&A expense rate in 2022 is primarily due to lower transactions costs as compared to 2021, which included the Merger and the Vintage acquisition as well as a significant amount of costs from the Hanover acquisition which occurred in January 2022. Additionally, revenue in 2022 grew faster than other general and administrative costs. This was partially offset by higher sales and marketing expenses including closing costs and commissions, particularly in our Metro New York segment which began delivering homes in 2022.

Equity in Net Income of Unconsolidated Joint Ventures

As of December 31, 2022 and 2021, 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, 2022, both of the joint ventures, Avora and LS-Boston-Point LLC (“Boston Point”), were effectively closed out with only customary post-closing, warranty-related activities remaining.

Our share of joint venture income for the year ended December 31, 2022 was $0.1 million, compared to $1.3 million for the year ended December 31, 2021. During the year ended December 31, 2022, the Avora project delivered significantly fewer units than the prior year as it closed out its few remaining units in 2022. As a result, we picked up less income from that joint venture than in the prior year.

Other (Expense) Income, net

For the year ended December 31, 2022, other expense, net was $0.1 million compared to other income, net of $3.9 million for the same period in 2021. 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.

(Loss) Gain on Remeasurement of Warrant Liability

For the year ended December 31, 2022, loss on remeasurement of warrant liability was 7.3 million compared to a gain of 2.1 million for the same period in 2021. The amount of loss on remeasurement of warrant liability for the year ended December 31, 2022 reflects the change in fair value of the private placement warrants up until their repurchase in June 2022.

Provision for Income Taxes

The income tax provision for the year ended December 31, 2022 was $25.4 million, as compared to $14.0 million for the year ended December 31, 2021. The effective tax rate for the year ended December 31, 2022 was 25.1%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits, limitations related to 162(m), and the fair value adjustment of warrants, offset by the energy efficient home credits. The federal energy efficient home credits provide 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 2022, we concluded that 2,290 homes delivered during the year were eligible for the tax credit, providing a benefit of $4.6 million for the year ended December 31, 2022. 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 credits.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

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 estimates 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.

Since the estimates and assumptions included in our cash flow models are based upon historical results and projected trends, they do not anticipate unexpected changes in market conditions or strategies that may lead to us incurring additional impairment charges in the future.

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, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows and market comparisons. We may, at our election, skip the qualitative assessment and move directly to the second step. The discounted cash flow approach 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. The market approach requires significant judgments in the selection of appropriate market multiples based on peer benchmarks. 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, 2022, and 2021.

Business Combinations

Acquisitions are accounted for in accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations*. In connection with the recent acquisitions of Hanover, Vintage, and Garrett Walker, 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 valuation specialist, 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 valuation specialist, 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, 2022, we had $140.7 million of cash, cash equivalents, restricted cash, and cash held in escrow, a $206.6 million decrease from December 31, 2021, primarily due to a net payment of $258.7 million for the Hanover acquisition, common stock repurchases of $40.5 million and repurchases of private placement warrants for $16.5 million, as well as other land purchases and construction costs. These cash outlays were partially offset by net borrowings on debt of $41.4 million and contributions from noncontrolling interests to a consolidated joint venture of $55.0 million. Cash held in escrow represents closings happening immediately before quarter-end in which we received the funds from the title company subsequent to December 31, 2022.

Our principal sources of capital are cash generated from home and land sales activities and borrowings from credit facilities. 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 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, 2022, we had outstanding borrowings of $514.3 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 other things, 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.

Credit Facility

In October 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 $675.0 million of which there was $514.3 million outstanding as of December 31, 2022. The Company may increase the borrowing capacity up to $850.0 million under certain circumstances. Borrowings under the Credit Agreement bear interest at the Secured Overnight

Financing Rate (“SOFR”) plus 3.35% or the Prime Rate (as defined in the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of LIBOR with SOFR as an index rate, and an extension of the maturity date to October 2025. As of December 31, 2022, the interest rate on the loan was 7.53%. The Credit Agreement matures in October 2025.

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 $114.9 million and $94.7 million of performance bonds outstanding at December 31, 2022 and 2021, respectively.

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, 2022	
Financial Covenants	**Actual**	**Covenant Requirement**
	(dollars in thousands)	
Minimum Liquidity Covenant	$ 301,435	$ 50,000
Interest Coverage Ratio - Adjusted EBITDA to Interest Incurred	4.76	1.75
Tangible Net Worth	$ 641,636	$ 394,253
Maximum Leverage Ratio (1)	37.8%	<60%

(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, 2022, we were in compliance with all required covenants.

Cash Flows—Year Ended December 31, 2022 Compared to the Year Ended December 31, 2021

For the years ended December 31, 2022 and December 31, 2021, the comparison of cash flows is as follows:

- Net cash provided by operating activities decreased to $16.0 million during the year ended December 31, 2022 compared to $33.4 million during 2021. The decrease in net cash flows from operating activities was primarily due to payments on accounts payable in the normal course of business and an increase in other assets of $47.7 million primarily related to land held in escrow pending closing. This was partially offset by proceeds from home sales, with net income growing $22.9 million compared to 2021.

- Net cash used in investing activities was $263.6 million during the year ended December 31, 2022, compared to $25.6 million during the same period in 2021. This difference was primarily related to the size of our acquisitions in the comparable periods. Payments for the acquisition of Hanover, net of cash acquired, was $258.7 million, compared to $44.5 million used in the acquisition of Vintage, net of cash received, in 2021. Distributions of capital from the Avora unconsolidated joint venture provided $0.6 million during the year ended December 31, 2022, compared to $22.1 million for the same period in 2021.

- Net cash provided by financing activities was $28.0 million during the year ended December 31, 2022, compared to $225.4 million during the same period in 2021. The decrease in cash provided by financing activities is due to increased borrowings in 2021 as compared to 2022. We had a net increase in cash from notes and other debts payable of $41.4 million in 2022, compared to an increase in net borrowings of $172.8 million in 2021, primarily from the new credit facility we entered into in 2021. We also completed the Merger in 2021, which provided net proceeds of $64.4 million. In addition, we paid $40.5 million and $16.5 million to repurchase stock and the Private Placement Warrants, respectively, during 2022. The decrease was partially offset by contributions of $55.0 million from a noncontrolling interest to fund a consolidated joint venture that was formed during the year ended December 31, 2022.

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, 2022, we had outstanding purchase and option contracts totaling $620.2 million, net of $98.4 million related cash deposits (of which $0.8 million is refundable) 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, 2022 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)]	$ 514,300	$ —	$ 514,300	$ —	$ —
Operating leases [(2)]	19,082	4,277	6,088	4,400	4,317
Purchase obligations [(3)]	620,198	335,543	230,755	53,900	—
Total contractual obligations	$ 1,153,580	$ 339,820	$ 751,143	$ 58,300	$ 4,317

(1) Principal payments in accordance with the line of credit and construction loans. Total future interest payments of $112.4 million associated with our current outstanding debt are based on the current outstanding balance and interest rate as of December 31, 2022 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, 2022.

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. 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 total 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 financial measures 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 Total Capital

The following table presents the ratio of debt to capital as well as the ratio of net debt to total 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 total 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 total capital. Prior to the fourth quarter of 2022, we presented the non-GAAP ratio of net debt to net capital computed as the quotient obtained by dividing net debt by net capital (sum of net debt plus total equity). During the fourth quarter of 2022, we began presenting the non-GAAP ratio of net debt to total capital, which is consistent with the ratio presented by our peers. The most comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to total 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 total capital provides supplemental information by which our financial position may be considered.

	December 31,	
	2022	2021
	(dollars in thousands)	
Total notes and other debts payable, net	$ 505,422	$ 461,117
Total equity	710,319	621,397
Total capital	$ 1,215,741	$ 1,082,514
Ratio of debt to capital	41.6 %	42.6 %
Total notes and other debts payable, net	$ 505,422	$ 461,117
Less: cash, cash equivalents and restricted cash	123,634	343,253
Less: cash held in escrow	17,101	4,079
Net debt	$ 364,687	$ 113,785
Total capital	$ 1,215,741	$ 1,082,514
Ratio of net debt to total capital	30.0 %	10.5 %

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the years ended December 31, 2022 and 2021. 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) loss (gain) on debt extinguishment or forgiveness, (vii) transaction costs related to the Merger and business combinations, (viii) the impact of income or loss allocations from our unconsolidated joint ventures, and (ix) 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,	
	2022	2021
	(dollars in thousands)	
Net income	$ 75,665	$ 52,735
Provision for income taxes	25,400	13,995
Interest in cost of sales	40,428	33,509
Interest relieved to equity in net income of unconsolidated joint ventures	70	1,267
Interest expense	—	32
Depreciation and amortization expense	5,549	5,393
EBITDA	147,112	106,931
Purchase price accounting for acquired inventory	50,412	14,588
Transaction costs	883	5,313
Equity in net income of unconsolidated joint ventures, net of interest	(219)	(2,529)
Loss (gain) on debt extinguishment or forgiveness	2,496	(4,266)
Loss (gain) on remeasurement of warrant liability	7,315	(2,090)
Adjusted EBITDA	$ 207,999	$ 117,947

Adjusted Net Income

Adjusted Net Income to Landsea Homes is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating 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 Landsea Homes 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, loss (gain) on debt extinguishment or forgiveness, and 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,	
	2022	2021
	(dollars in thousands)	
Net income attributable to Landsea Homes Corporation	$ 73,551	$ 52,786
Previously capitalized related party interest included in cost of sales	5,130	11,670
Equity in net income of unconsolidated joint ventures	(149)	(1,262)
Purchase price accounting for acquired inventory	50,412	14,588
Merger related transaction costs	—	2,656
Loss (gain) on debt extinguishment or forgiveness	2,496	(4,266)
Loss (gain) on remeasurement of warrant liability	7,315	(2,090)
Total adjustments	65,204	21,296
Tax-effected adjustments (1)	49,755	14,004
Adjusted net income attributable to Landsea Homes Corporation	$ 123,306	$ 66,790

(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
Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Landsea Homes Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Landsea Homes Corporation and subsidiaries (the "Company") as of December 31, 2022, the related consolidated statements of operations, equity, and cash flows, for the year then ended, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

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 audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit 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 audit 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 audit provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Real Estate Inventories — Valuation— Refer to Notes 2 and 5 to the financial statements

Critical Audit Matter Description

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 less than the asset's carrying value, the asset is written down to fair value and impairment charges are recorded through cost of sales. The carrying value of real estate inventories as of December 31, 2022 was $1,093.4 million. The Company did not record any impairment charges during the year ended December 31, 2022.

Auditing the Company's impairment evaluation of real estate inventories was complex due to the subjectivity in determining whether impairment indicators were present at a community. Additionally, for real estate inventories where indicators of impairment were present, the determination of the undiscounted future cash flows involved significant judgment. In particular, management's key assumptions and estimates used in developing undiscounted future cash flows projections and estimates includes future housing revenues, sales absorption rates, land development, and construction and related carrying costs. Accordingly, auditing management's judgments regarding the key assumptions used in the undiscounted future cash flows analyses involved our especially challenging and subjective auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the identification of real estate inventories with indicators of impairment, and the related undiscounted future cash flows for real estate inventories with impairment indicators included the following, among others:

- We tested the effectiveness of controls over the Company's real estate inventories impairment process, including those over the identification of impairment indicators and the determination of undiscounted future cash flows.
- We evaluated management's impairment indicators analysis, including thresholds used for investigation, and whether management appropriately considered potential significant indicators.
- We performed an independent search for impairment indicators to determine whether factors were present during the period that were not identified by management, which may indicate that a fair value analysis is required.
- For real estate inventories with indicators of impairment, we evaluated significant assumptions to estimate the future undiscounted cash flows and source information used by management. We selected a sample and performed incremental testing of the related undiscounted future cash flows model by:
    - Testing the mathematical accuracy of the undiscounted cash flow models, and
    - Challenging key assumptions and estimates of future housing revenues, sales absorption rates, land development, and construction and related carrying costs used in management's undiscounted future cash flows model by comparing to historical data and performing sensitivity analysis.

Hanover Family Builders, LLC Acquisition — Valuation— Refer to Notes 2 and 3 to the financial statements

Critical Audit Matter Description

The Company completed the acquisition of Hanover Family Builders, LLC on January 18, 2022 for total purchase consideration of $262.6 million, net of working capital adjustments. The Company accounted for the acquisition of Hanover Family Builders, LLC as a business combination. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including the $232.1 million of real estate inventories. Management estimated the fair value of the real estate inventories by utilizing a sales comparison approach for acquired land and land options and a market gross margin for work in process inventories. Goodwill of $44.2 million was calculated as the fair value of the business less the value of the Company's tangible and identifiable intangible assets and liabilities as of January 18, 2022.

Given the amount of subjectivity and estimation involved in determining the fair value of real estate inventories acquired from Hanover Family Builders, LLC, performing audit procedures to evaluate the reasonableness of estimates used and assumptions made primarily through the sales comparison approach and market gross margin required a high degree of auditor judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the fair value of real estate inventories for Hanover Family Builders, LLC included the following, among others:

- We tested the effectiveness of controls over the Company's purchase price allocation, including management's controls over the completeness of real estate inventories and the valuation methodology for estimating the fair value of real estate inventories.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology, (2) sales comparables, and (3) gross margins including testing the mathematical accuracy of the calculation by:
    - Developing a range of independent estimates and comparing our estimates to those used by management.
    - Comparing the assumptions used to external market sources and results from other areas of the audit.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 9, 2023

We have served as the Company's auditor since 2022.

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 consolidated balance sheet of Landsea Homes Corporation and its subsidiaries (the "Company") as of December 31, 2021, and the related consolidated statements of operations, of equity and of cash flows for each of the two 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 the results of its operations and its cash flows for each of the two 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 audit 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 served as the Company's auditor from 2019 to 2021.

Landsea Homes Corporation
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 123,634	$ 342,810
Cash held in escrow	17,101	4,079
Restricted cash	—	443
Real estate inventories	1,093,369	844,792
Due from affiliates	3,744	4,465
Investment in and advances to unconsolidated joint ventures	41	470
Goodwill	68,639	24,457
Other assets	133,968	43,998
Total assets	$ 1,440,496	$ 1,265,514
Liabilities		
Accounts payable	$ 74,445	$ 73,734
Accrued expenses and other liabilities	149,426	97,724
Due to affiliates	884	2,357
Warrant liability	—	9,185
Notes and other debts payable, net	505,422	461,117
Total liabilities	730,177	644,117
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized, none issued and outstanding as of December 31, 2022 and December 31, 2021, respectively	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 42,110,794 issued and 40,884,268 outstanding as of December 31, 2022, 46,281,091 issued and outstanding as of December 31, 2021	4	5
Additional paid-in capital	497,598	535,345
Retained earnings	158,348	84,797
Total stockholders' equity	655,950	620,147
Noncontrolling interests	54,369	1,250
Total equity	710,319	621,397
Total liabilities and equity	$ 1,440,496	$ 1,265,514

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,		
	2022	2021	2020
Revenue			
Home sales	$ 1,392,750	$ 936,400	$ 734,608
Lot sales and other	53,699	86,904	—
Total revenue	1,446,449	1,023,304	734,608
Cost of sales			
Home sales	1,108,204	772,575	636,324
Inventory impairments	—	—	3,413
Lot sales and other	51,321	68,131	—
Total cost of sales	1,159,525	840,706	639,737
Gross margin			
Home sales	284,546	163,825	94,871
Lot sales and other	2,378	18,773	—
Total gross margin	286,924	182,598	94,871
Sales and marketing expenses	89,305	52,840	48,100
General and administrative expenses	89,325	70,266	42,598
Total operating expenses	178,630	123,106	90,698
Income from operations	108,294	59,492	4,173
Other (expense) income, net	(63)	3,886	80
Equity in net income (loss) of unconsolidated joint ventures	149	1,262	(16,418)
(Loss) gain on remeasurement of warrant liability	(7,315)	2,090	—
Pretax income (loss)	101,065	66,730	(12,165)
Provision (benefit) for income taxes	25,400	13,995	(3,081)
Net income (loss)	75,665	52,735	(9,084)
Net income (loss) attributable to noncontrolling interests	2,114	(51)	(133)
Net income (loss) attributable to Landsea Homes Corporation	$ 73,551	$ 52,786	$ (8,951)
Earnings (loss) per share:			
Basic	$ 1.71	$ 1.14	$ (0.27)
Diluted	$ 1.70	$ 1.14	$ (0.27)
Weighted average shares outstanding:			
Basic	42,052,696	45,198,722	32,557,303
Diluted	42,199,462	45,250,718	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	Noncontrolling Interests	Total Equity
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
Shares issued under share-based awards	228,529	—	—	—	—	—
Cash paid for shares withheld for taxes	—	—	(848)	—	—	(848)
Stock-based compensation expense	—	—	3,647	—	—	3,647
Contributions from noncontrolling interests	—	—	—	—	55,000	55,000
Distributions to noncontrolling interests	—	—	—	—	(3,995)	(3,995)
Repurchase of common stock	(5,625,352)	(1)	(40,546)	—	—	(40,547)
Net income	—	—	—	73,551	2,114	75,665
Balance at December 31, 2022	40,884,268	$ 4	$ 497,598	$ 158,348	$ 54,369	$ 710,319

See accompanying notes to the consolidated financial statements.

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Landsea Homes Corporation

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2022	**2021**	**2020**
Cash flows from operating activities:			
Net income (loss)	$ 75,665	$ 52,735	$ (9,084)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,549	5,393	3,580
Loss (gain) on remeasurement of warrant liability	7,315	(2,090)	—
Stock-based compensation expense	3,647	5,808	—
Loss (gain) on extinguishment or forgiveness of debt	2,496	(4,266)	—
Inventory impairments	—	—	3,413
Abandoned project costs	650	555	380
Equity in net (income) loss of unconsolidated joint ventures	(149)	(1,262)	16,418
Deferred taxes	(6,299)	(2,826)	(5,024)
Changes in operating assets and liabilities:			
Cash held in escrow	(13,022)	7,539	(2,782)
Real estate inventories	(12,846)	(59,655)	(19,895)
Due from affiliates	721	(1,802)	(174)
Other assets	(53,781)	(6,045)	(756)
Accounts payable	(5,617)	35,850	15,744
Accrued expenses and other liabilities	13,139	3,466	10,779
Due to affiliates	(1,473)	—	1,010
Net cash provided by operating activities	15,995	33,400	13,609
Cash flows from investing activities:			
Purchases of property and equipment	(5,469)	(3,176)	(1,794)
Distributions of capital from unconsolidated joint ventures	578	22,134	5,196
Payments for business acquisition, net of cash acquired	(258,727)	(44,537)	(128,528)
Net cash used in investing activities	(263,618)	(25,579)	(125,126)
Cash flows from financing activities:			
Borrowings from notes and other debts payable	281,612	910,487	600,391
Repayments of notes and other debts payable	(240,228)	(737,683)	(505,942)
Proceeds from Merger, net of fees and other costs	—	64,434	—
Cash paid for shares withheld for taxes	(848)	—	—
Payment for buyback of warrants	(16,500)	—	—
Repayment of convertible note	—	(1,500)	—
Repurchases of common stock	(40,547)	—	—
Contributions from noncontrolling interests	55,000	—	198
Distributions to noncontrolling interests	(3,995)	—	(15,414)
Deferred offering costs paid	(2,605)	(1,832)	(7,466)
Debt issuance and extinguishment costs paid	(3,885)	(8,522)	(5,532)
Cash distributed to parent, net	—	—	(1,048)
Net cash provided by financing activities	28,004	225,384	65,187
Net (decrease) increase in cash, cash equivalents, and restricted cash	(219,619)	233,205	(46,330)
Cash, cash equivalents, and restricted cash at beginning of year	343,253	110,048	156,378
Cash, cash equivalents, and restricted cash at end of year	$ 123,634	$ 343,253	$ 110,048

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

1. Company

Landsea Homes Corporation (together with its subsidiaries, "Landsea Homes" or the "Company"), a majority owned subsidiary of Landsea Holdings Corporation ("Landsea Holdings"), 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, Landsea Homes 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 LF Capital 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 Landsea Homes Corporation's 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 24-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 Company's public warrants they are referred to as the "Warrants"). During the year ended December 31, 2022, the private placement warrants were repurchased by the Company and are no longer outstanding, refer to *Note 17 – Stockholders' Equity* for additional information. In January 2023, the Company concluded that the threshold for the Earnout Shares was not met and therefore those shares were forfeited and cancelled.

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 representing 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 certain phantom awards. At the time of the Merger, 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.

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 Landsea Homes, 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 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.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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 subsidiaries, partnerships and other entities in which the Company has a controlling interest and VIEs in which the Company is deemed the primary beneficiary. The Company's investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary are accounted for under the equity method. All intercompany transactions and balances have been eliminated in consolidation.

Landsea Holdings holds a series of notes payable to affiliated entities of its parent. The cash Landsea Holdings received from this debt was previously utilized to partially 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 6 – 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 were not 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, Landsea Homes 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 Landsea Homes.

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.

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.

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

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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 the Company's estimates of future cash flows and the applicable discount rate, which are Level 3 inputs. The key assumptions used in real estate inventories valuation are subject to a variety of external factors and are inherently uncertain. It is reasonably possible that changes in market conditions could change the Company's estimates of future cash flows, leading to different conclusions. Accordingly, actual results could differ from valuation estimates. See *Note 5 – 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 ASC 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 Company's recent acquisitions, 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. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets.

The fair value of acquired real estate inventories largely depends on the stage of production of the acquired land and work in process inventory. For acquired land and land options, the Company typically utilizes, with the assistance of a third party valuation specialist, 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 the Company

Landsea Homes Corporation
Notes to Consolidated Financial Statements

believes 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, 2022 and 2021, the Company concluded that some of its joint ventures were VIEs. For entities in which the Company concluded that it was not the primary beneficiary of the VIEs, the Company 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, 2022, 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 direct the activities of an entity that most significantly impact the entity's economic performance, (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 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, 2022, the Company consolidated two joint venture VIEs. Refer to *Note 4 – Variable Interest Entities* for further information regarding VIEs. As of December 31, 2021, the Company consolidated one joint venture VIE.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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 the Company's election, the Company will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows and market comparisons. 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, 2022, 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, 2022, 2021, and 2020 the Company incurred depreciation expense of $2.0 million, $1.7 million, and $1.4 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, 2022, 2021, and 2020 the Company incurred amortization expense of $0.6 million, $2.0 million, and $1.6 million, respectively. All other selling and marketing costs, such as commissions and advertising, are expensed as incurred. Advertising and marketing costs of $5.1 million, $3.2 million, and $2.4 million for the years ended December 31, 2022, 2021, and 2020, respectively, are included in sales and marketing expenses on the consolidated statements of operations.

Warranty Accrual—The Company provides home purchasers with limited warranties against certain building defects and has 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 the Company provides all of its home buyers with a limited warranty as to workmanship and mechanical equipment and also provide many of its 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 warranty accrual is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets and adjustments to the accrual are recorded through cost of sales.

Warrant Liability—The Company accounted 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 ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*. For issued or modified warrants that did not meet all the criteria for equity classification, the warrants were recorded as liabilities at their

Landsea Homes Corporation
Notes to Consolidated Financial Statements

initial fair value on the date of issuance or assumption and remeasured to fair value at each balance sheet date thereafter.

The Company's Private Placement Warrants were 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 (loss) gain on remeasurement of the warrant liability. The fair value of the Private Placement Warrants was estimated using a Black-Scholes option pricing model which included assumptions used in the model that were subjective and required significant judgment, including implied volatility, which was a Level 3 input. Each Private Placement Warrant was exercisable at $ 11.50 into one share of common stock. In June 2022, all of the outstanding Private Placement Warrants were repurchased by the Company. Refer to *Note 17 – Stockholders' Equity* for additional information on the Warrants. The fair value of the Private Placement Warrants is discussed further in *Note 15 – 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.

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 the effective tax rate calculation assuming that the Company will be able to realize the full benefit of the credits.

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 Compan'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. The Company recognizes 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

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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 March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting. These changes are intended to simplify the market transition from the London Interbank Offered Rate ("LIBOR") to alternative reference rates. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which clarified the scope and application of ASU 2020-04. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the sunset date of the reference rate reform guidance to December 31, 2024. This guidance may be elected over time, through December 31, 2024, as reference rate reform activities occur. Once ASU 2020-04 is elected, the guidance must be applied prospectively for all eligible contract modifications. In June 2022, the Company modified its credit facility to use the Secured Overnight Financing Rate ("SOFR") as a reference rate rather than LIBOR. The Company elected to apply this guidance which preserves the presentation of the loan consistent with the presentation prior to the modification.

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

3. Business Combinations

On January 18, 2022, the Company acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder, for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The aggregate purchase price included a pay-off of $69.3 million related to debt held by Hanover and a payment of $15.6 million for land-related deposits. The total assets of Hanover included approximately 20 development projects and 3,800 lots owned or controlled in various stages of development.

In accordance with ASC 805, the assets acquired and liabilities assumed from the acquisition of Hanover were measured and recognized at fair value as of the date of the acquisition 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 valuation specialist, 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

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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 Hanover 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 and business synergies. Goodwill of $44.2 million was recorded on the consolidated balance sheets as a result of this transaction and is expected to be deductible for tax purposes over15 years. The acquired goodwill is included in the Florida reporting segment in *Note 14 – Segment Reporting*. The Company incurred transaction related costs of $0.7 million related to the Hanover acquisition during the year ended December 31, 2022.

The Company's results of operations include homebuilding revenues from the Hanover acquisition of $334.0 million for the year ended December 31, 2022. The accompanying results of operations also include pretax income of $20.1 million from the Hanover acquisition during the year ended December 31, 2022. The pretax income is inclusive of purchase price accounting and an allocation of corporate general and administrative expenses.

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	$	3,857
Real estate inventories		232,071
Goodwill		44,182
Trade name		1,590
Other assets		378
Total assets	$	282,078
Liabilities Assumed		
Accounts payable	$	6,329
Accrued expenses		13,165
Total liabilities		19,494
Net assets acquired	$	262,584

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, the Company assumed $32.1 million of debt, of which it paid down $3.8 million in connection with the acquisition. Total assets included approximately 20 development projects and 1,800 lots in various stages of development. The intangible asset acquired relates to the Vintage trade name, which was estimated to have a fair value of $1.6 million and was amortized over one year. Goodwill of $3.8 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 Florida reporting segment. The Company incurred transaction costs of $0.9 million related to the Vintage acquisition during the year ended December 31, 2021.

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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 Homes ("Garrett Walker") for cash consideration of approximately $133.4 million. Garrett Walker is a residential homebuilder located in Phoenix, Arizona and was comprised of 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 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

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and net income (loss) for the years ended December 31, 2022, 2021, and 2020 give effect to the results of the acquisitions of Hanover, Vintage, and Garrett Walker as though the respective acquisition dates were as of January 1, 2021, January 1, 2020, and January 1, 2019 the beginning of the year preceding the respective acquisitions. 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

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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,		
	2022	2021	2020
	(dollars in thousands)		
Revenue	$ 1,451,558	$ 1,286,919	$ 894,177
Pretax income (loss)	151,846	23,142	(19,183)
(Provision) benefit for income taxes	(38,163)	(4,853)	4,858
Net income (loss)	$ 113,683	$ 18,289	$ (14,325)

4. Variable Interest Entities

The Company consolidates two joint venture ("JV") VIEs. The consolidated VIEs include one active project in the Metro New York area ("14th Ave JV") and one JV with the purpose of acquiring undeveloped land (the "LCF JV"). The Company has determined that it is the primary beneficiary of these VIEs as it has the power to direct activities of the operations that most significantly affect their economic performance.

Both consolidated VIEs are financed by equity contributions from the Company and the JV partner. The 14th Ave JV was also funded by third-party debt which was paid off in April 2022 with proceeds from a loan provided by the Company. The intercompany loan has been eliminated upon consolidation.

The following table summarizes the carrying amount and classification of the VIEs' assets and liabilities in the consolidated balances sheets as of December 31, 2022 and 2021.

	December 31, 2022	December 31, 2021
	(dollars in thousands)	
Cash	$ 4,697	$ 130
Restricted cash	—	443
Real estate inventories	99,699	121,040
Due from affiliates	329	—
Other assets	2,124	195
Total assets	$ 106,849	$ 121,808
Accounts payable	$ 1,577	$ 1,779
Accrued expenses and other liabilities	5,616	1,400
Due to affiliates	—	226
Notes payable, net	—	81,584
Total liabilities	$ 7,193	$ 84,989

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5. Real Estate Inventories

Real estate inventories are summarized as follows:

	December 31,	
	2022	2021
	(dollars in thousands)	
Deposits and pre-acquisition costs	$ 101,395	$ 65,724
Land held and land under development	191,047	243,310
Homes completed or under construction	779,352	526,950
Model homes	21,575	8,808
Total real estate inventories	$ 1,093,369	$ 844,792

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 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, *Property, Plant, and Equipment*, 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 the Company's estimates of future home sales revenue, home construction costs, and the applicable discount rate, all of which are Level 3 inputs.

For the years ended December 31, 2022 and 2021 the Company did not recognize any real estate inventories impairments. For the year ended December 31, 2020, the Company recognized real estate inventories impairments of $3.4 million related to two communities in its 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%.

6. 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 years ended December 31, 2022, 2021, and 2020, the Company incurred and capitalized interest of $35.6 million, $27.2 million, and $31.5 million, respectively. These amounts included related party interest incurred and capitalized of $1.0 million, $0.5 million, and $10.1 million, respectively.

Previously capitalized interest included in cost of sales or equity in net income (loss) of unconsolidated joint ventures during the years ended December 31, 2022, 2021, and 2020 was $40.5 million, $34.8 million, and $39.1 million, respectively. These amounts included related party interest of $5.2 million, 12.9 million, and $15.3 million, respectively.

7. Investment in and Advances to Unconsolidated Joint Ventures

As of December 31, 2022 and 2021, 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

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entities and, accordingly, accounted for these entities under the equity method of accounting. The Company's 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,	
	2022	2021
	(dollars in thousands)	
Cash and cash equivalents	$ 2,917	$ 2,275
Real estate inventories	—	2,515
Other assets	—	122
Total assets	$ 2,917	$ 4,912
Accounts payable	$ 3	$ 21
Accrued expenses and other liabilities	2,523	3,465
Due to affiliates	472	787
Total liabilities	2,998	4,273
Members' capital	(81)	639
Total liabilities and members' capital	$ 2,917	$ 4,912

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,		
	2022	2021	2020
	(dollars in thousands)		
Revenues	$ 3,047	$ 50,067	$ 37,403
Cost of sales and expenses	(2,633)	(45,123)	(40,230)
Impairment of real estate inventories	—	—	(27,094)
Net income (loss) of unconsolidated joint ventures	$ 414	$ 4,944	$ (29,921)
Equity in net income (loss) from investment in unconsolidated joint ventures (1)	$ 149	$ 1,262	$ (16,418)

(1) The equity in net income (loss) of unconsolidated joint ventures consists of the allocation of the Company's proportionate share of income or loss from the unconsolidated joint ventures of $0.2 million income, $2.5 million income, and $15.2 million loss as well as $0.1 million, $1.3 million, and $1.2 million of expense related to capitalized interest and other costs for the years ended December 31, 2022, 2021, and 2020, respectively.

For the year ended December 31, 2020, one of the Company's unconsolidated joint ventures recorded an impairment charge of $27.1 million related to slowing absorption and weaker pricing than expected. Based on the Company's ownership percentage of 51%, $13.8 million of the impairment charge is reflected in the equity in net income (loss) of unconsolidated joint ventures line item in the Company's consolidated statements of operations. For the years ended December 31, 2022 and 2021, the unconsolidated joint ventures did not recognize any real estate inventories impairments.

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8. Other Assets

Other assets consist of the following:

	December 31,	
	2022	2021
	(dollars in thousands)	
Deferred tax asset, net	$ 13,569	$ 7,270
Property and equipment, net [(1)]	9,533	6,601
Right-of-use asset	15,589	12,593
Contract assets	7,180	6,133
Prepaid income taxes	—	645
Intangible asset, net	44	910
Prepaid expenses	4,896	5,309
Project funds in escrow	44,159	821
Warranty and general liability insurance receivables [(2)]	27,109	—
Other	11,889	3,716
Total other assets	$ 133,968	$ 43,998

(1) Property and equipment is net of $11.5 million and $11.8 million accumulated depreciation as of December 31, 2022 and 2021, respectively.
(2) Insurance recoveries not yet received from our insurers are recorded on a gross basis, without any reduction for the associated warranty expense, within other assets on our consolidated balance sheets. Refer to the Warranty section in *Note 9 – Accrued Expenses and Other Liabilities* for additional information.

As of December 31, 2022 and 2021, respectively, the Company had contract assets of $7.2 million and $6.1 million related to lot sales and other revenue. The contract asset balance is included in other assets on the Company's consolidated balance sheets and represents cash to be received for work already performed on lot sales and other contracts. The amount of the transaction price for lot sales and other contracts remaining to be recognized as revenue for performance obligations that were not fully satisfied as of December 31, 2022 and 2021 was $11.6 million and $63.9 million, respectively.

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9. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2022	2021
	(dollars in thousands)	
Land development and home construction accrual	$ 39,716	$ 22,082
Warranty reserve and general liability	46,657	15,692
Accrued compensation and benefits	18,920	14,913
Lease liabilities	16,428	13,190
Sales tax payable	1,448	2,885
Income tax payable	3,420	12,079
Interest payable	4,351	2,494
Deferred revenue	—	3,969
Homebuyer deposits	15,046	7,825
Other deposits and liabilities	3,440	2,595
Total accrued expenses and other liabilities	$ 149,426	$ 97,724

As of December 31, 2021, the Company had $4.0 million of deferred revenue related to lot sales and other revenue included in accrued expenses and other liabilities in the Company's consolidated balance sheets. The Company reduces these liabilities and recognizes revenue as development progresses and the related performance obligations are completed. The Company recognized $4.0 million of lot sales and other revenue during the year ended December 31, 2022 related to the deferred revenue balance as of December 31, 2021. As of December 31, 2022 the Company had no deferred revenue.

Warranty—Estimated future direct warranty reserve and general liability costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Changes in the Company's warranty reserve and general liability are detailed in the table below:

	December 31,	
	2022	2021
	(dollars in thousands)	
Beginning warranty reserve and general liability	$ 15,692	$ 11,730
Adjustments (1)	18,018	—
Provision (2)	16,114	6,013
Payments	(3,167)	(2,051)
Ending warranty reserve and general liability	$ 46,657	$ 15,692

(1) In accordance with ASC 210,*Balance Sheet,* the Company presented warranty reserve and general liability on a gross basis within the consolidated balance sheet as of December 31, 2022, and presented anticipated insurance recoveries within other assets. Previously, the Company presented the warranty reserve and general liability within accrued expenses and other liabilities, net of anticipated insurance recoveries. This resulted in an adjustment of $18.0 million to beginning warranty reserve and general liability on January 1, 2022 with a corresponding increase in warranty and general liability insurance receivables.

(2) The provision amount for the year ended December 31, 2022 includes $.8 million associated with Hanover, which we acquired on January 18, 2022.

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10. Notes and Other Debts Payable, net

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

	December 31,	
	2022	2021
	(dollars in thousands)	
Construction loans	$ —	$ 82,617
Line of credit facilities	514,300	390,300
Notes and other debts payable	514,300	472,917
Deferred loan costs	(8,878)	(11,800)
Notes and other debts payable, net	$ 505,422	$ 461,117

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 $675.0 million as of December 31, 2022. The Company may increase the borrowing capacity up to $850.0 million, under certain conditions. Borrowings under the Credit Agreement bear interest at SOFR plus 3.35% or Prime Rate (as defined by the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of LIBOR with SOFR as an index rate, and an extension of the maturity date to October 2025. As of December 31, 2022, the interest rate on the loan was 7.53%. The Credit Agreement matures in October 2025.

In addition, the Company previously had one project-specific construction loan. In April 2022, the construction loan was repaid in full with proceeds from borrowings under the Credit Agreement. In connection with this payoff, the Company incurred $2.5 million of debt extinguishment fees which are included in other (expense) income, net, in the consolidated statements of operations.

The Company received a Paycheck Protection Program ("PPP") loan during the second quarter of 2020 in the amount of $4.3 million, and received a notice of forgiveness of the PPP loan in June 2021. The forgiveness was recorded as other income in the consolidated statements of operations.

The Credit Agreement contains 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. As of December 31, 2022, the Company was in compliance with all financial covenants.

The aggregate maturities of the principal balances of the notes and other debts payable subsequent to December 31, 2022 are as follows *(dollars in thousands)*:

2023	$ —
2024	—
2025	514,300
Thereafter	—
	$ 514,300

11. Commitments and Contingencies

Legal—The Company is currently involved in various legal actions and proceedings that arise from time to time and may be subject to similar or other legal and/or regulatory actions in the future. 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 the Company's results of operations, financial position, or liquidity.

In the fourth quarter of 2021, certain insurers paid $14.9 million on behalf of the Company and others to settle a wrongful death suit. The insurers contend they are entitled to seek reimbursement from the Company for some or all of such amounts, which the Company disputes. At this time the Company is unable to estimate the amount or

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outcome of the insurers' claims against the Company. In addition, the Company is unable to estimate the amount or outcome of its recovery actions against relevant third parties.

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 $114.9 million and $94.7 million of performance bonds outstanding at December 31, 2022 and 2021, 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, 2022, the Company had total deposits of $98.4 million, of which $0.8 million are refundable, related to contracts to purchase land and lots with a total remaining purchase price of approximately $620.2 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 primarily enters into operating leases for the right to use office space, model homes, and computer and office equipment, which have remaining lease terms that range from 1 to 8 years and often include one or more options to renew. During the year ended December 2021, the Company sold model homes and immediately leased these models back for up to two years. Certain of these model homes were not complete at the time of sale. All of the leases from the sale-leasebacks are accounted for as operating leases and are 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 12 – Related Party Transactions* for further detail. The weighted average remaining lease term as of December 31, 2022 and 2021 was 5.7 years and 4.1 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 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, 2022 and 2021 was 4.6% and 3.8%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of December 31, 2022, the Company had $15.6 million and $16.4 million recognized as a right-of-use asset and lease liability, respectively, which are presented on the consolidated balance sheets within other assets and accrued expenses and other liabilities, respectively. 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.

Operating lease expense for the years ended December 31, 2022, 2021, and 2020 was $2.2 million, $1.9 million, and $2.0 million, respectively, and is included in general and administrative expense on the consolidated statements of operations.

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Future minimum payments under the noncancelable operating leases in effect at December 31, 2022 were as follows *(dollars in thousands)*:

2023	$	4,277
2024		3,511
2025		2,577
2026		2,310
2027		2,090
Thereafter		4,317
Total lease payments		19,082
Less: Discount		(2,654)
Present value of lease liabilities	$	16,428

12. Related Party Transactions

Following the Merger, the Company continues to pay for certain costs on behalf of its former parent and current majority shareholder. The Company records a due from affiliate balance for all such payments. As of December 31, 2022 and 2021, the Company had a net receivable due from affiliates of $2.9 million and $2.1 million, respectively.

During the year ended December 31, 2022, the Company sold one home to an officer of the Company and one home to a family member of a significant shareholder of the Company. The Company recognized home sales revenue of $4.0 million and cost of sales of $3.5 million from these transactions.

In June 2022, the Company entered into two transactions with its majority shareholder, Landsea Holdings. On June 1, 2022, the Board of Directors authorized the Company to buy back 4.4 million shares of common stock held by Landsea Holdings. The Company paid $30.0 million at a price of $6.82 per share, a discount of 5% compared to the closing price on May 31, 2022 of $7.18. Additionally, the Company repurchased all 5.5 million outstanding Private Placement Warrants, of which Landsea Holdings held 2.2 million. The Company paid Landsea Holdings $6.6 million at $3.00 per Private Placement Warrant. In addition, 2.8 million of the repurchased Private Placement Warrants were held by Level Field Capital, LLC, a related party that is controlled by a member of the Company's Board of Directors. The Company paid Level Field Capital, LLC $8.4 million at $3.00 per Private Placement Warrant. The Company's common stock and Warrants are discussed further in *Note 17 – Stockholders' Equity*.

In June 2022, Landsea Capital Fund, who is under common control with the Company, contributed $55.0 million to the LCF JV. The LCF JV, which is consolidated by the Company, used these proceeds to purchase undeveloped land from the Company. The Company distributed $4.0 million to Landsea Capital Fund during the year ended December 31, 2022. All intercompany transactions between the Company and the LCF JV have been eliminated upon consolidation.

In December 2021, the Company sold model homes to a related party for total consideration of $15.2 million. Construction of certain of these model homes was not complete at the time of sale. The Company recognized lot sales and other revenue of $1.2 million and $3.2 million during the years ended December 31, 2022 and 2021, respectively, related to the model homes still under construction on the date of sale. Corresponding lot and other cost of sales of $1.3 million and $3.0 million was also recognized during the same periods, respectively. The Company recognized home sales revenue of $10.8 million and corresponding home cost of sales of $8.8 million during the year ended December 31, 2021 related to the completed model homes on the date of sale. No home sales revenue or corresponding home cost of sales was recognized on these model homes during the year ended December 31, 2022. As part of this transaction, the Company leased back these models. The total amount of rent payments made during the year ended December 31, 2022 is $0.8 million. No rent payments were made during the year ended December 31, 2021. The right-of-use asset and lease liability balances associated with these leases is $1.3 million and $1.3 million, respectively, as of December 31, 2022 and $2.0 million and $2.0 million, respectively, as of December 31, 2021.

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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 may purchase, at the Company's discretion, the lots at a predetermined price of $28.9 million. The total amount of interest payments made during the years ended December 31, 2022 and 2021 was $1.0 million and $0.4 million, respectively. During the year ended December 31, 2022, payments of $11.4 million have been made to purchase developed lots from the related party. No payments were made to purchase developed lots from the related party during the year ended December 31, 2021.

In connection with the Merger, we transferred a deferred tax asset ("DTA") to Landsea Holdings, the 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.

Prior to the Merger, the Company incurred and capitalized interest to real estate inventories from a loan that Landsea Holdings entered into with a related party. Subsequent to the Merger, the Company no longer capitalizes interest from this related party transaction because the loan remained the obligation of Landsea Holdings and the Company no longer has any obligation associated with that loan. The previously capitalized amount is included in cost of sales as the related inventories are delivered. Refer to *Note 6 – Capitalized Interest* for more information.

Total capitalized interest from related party transactions included in real estate inventories on the consolidated balance sheets was $3.0 million and $7.5 million as of December 31, 2022 and 2021, respectively.

13. Income Taxes

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

	Year Ended December 31,		
	2022	2021	2020
		(dollars in thousands)	
Current:			
Federal	$ 22,350	$ 11,507	$ 833
State	9,350	5,314	1,104
Current tax provision	31,700	16,821	1,937
Deferred:			
Federal	(4,681)	(2,425)	(3,602)
State	(1,619)	(401)	(1,416)
Deferred tax benefit	(6,300)	(2,826)	(5,018)
Total income tax provision (benefit), net	$ 25,400	$ 13,995	$ (3,081)

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The provision (benefit) 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,		
	2022	2021	2020
Federal income tax expense	21.0 %	21.0 %	21.0 %
State income tax expense, net of federal tax effect	6.4	5.6	5.7
162(m) limitation	1.0	(1.3)	—
PPP loan	—	1.8	—
Fair market value of warrant	1.5	(0.7)	—
Noncontrolling interest	(0.5)	—	—
Energy efficient home credits	(3.6)	(6.2)	5.6
Other permanent differences	—	0.1	(0.3)
Return to provision adjustment	(0.7)	0.4	(3.5)
Rate change	(0.1)	0.1	(3.2)
Change of valuation allowance	(0.1)	0.2	—
Other	0.2	—	—
Effective tax rate	25.1 %	21.0 %	25.3 %

The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2022 is primarily related to state income taxes, net of federal income tax benefits, limitations related to officers' compensation under Section 162(m), and the fair value of adjustment of warrants, offset by the energy efficient home credits. 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 credits. The energy efficient home credits are a decrease to income tax expense in 2022 and 2021 compared to an increase to the Company's income tax benefit in 2020. 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, limitations related to section 162(m), the forgiveness of the PPP loan, and the energy efficient home credits.

At December 31, 2022, 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, Florida, Massachusetts, New Jersey, New York, Pennsylvania, and Texas.

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, 2022	December 31, 2021
	(dollars in thousands)	
Deferred tax assets		
Accrued expenses	$ 14,279	$ 3,764
Lease liability	4,384	3,479
State tax liability	1,963	1,118
Net operating loss and credit carryforward	—	87
Stock compensation	1,009	905
UNICAP	4,489	1,677
Goodwill and intangibles	331	606
Basis difference in investments	499	108
Deferred tax asset	26,954	11,744
Less: Valuation allowance	—	(128)
Deferred tax asset, net	26,954	11,616
Deferred tax liabilities		
Right-of-use asset	(4,160)	(3,321)
Basis difference in fixed assets and intangible assets	(1,990)	(1,025)
Warranty receivables	(7,235)	—
Deferred tax liability	(13,385)	(4,346)
Net deferred tax asset	$ 13,569	$ 7,270

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 cumulative income over the past three years, 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, 2022.

At December 31, 2022, the Company did not have any federal or state NOL carryforwards.

The statute of limitations is three years for federal income tax purposes and four years for state income tax purposes. The Company's federal tax returns for years 2019 through 2021 and state tax returns for years 2018 through 2021 are subject to examination under statute.

The Inflation Reduction Act ("IRA") of 2022 was enacted into law on August 16, 2022. The IRA introduces a 15% corporate alternative minimum tax on average annual adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases made by publicly traded US corporations after December 31, 2022. The IRA also retroactively extends the federal tax credit for building new energy efficient homes for homes delivered from January 1, 2022 through December 31, 2032. The federal energy tax credits were recognized for the year ended December 31, 2022. There were no other material effects of the IRA on the Company's consolidated financial statements.

Prior to 2021, the Company historically reported income taxes on the consolidated income tax returns of Landsea Holdings since it was a wholly owned subsidiary of Landsea Holdings. Subsequent to the Merger, the Company now files 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, including 2020. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the Company's actual tax balances during that period.

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14. 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 operations, including total revenue and pretax income (loss) to assess profitability and to allocate resources. Accordingly, the Company has presented its operations for 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 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,		
	2022	2021	2020
		(dollars in thousands)	
Revenue			
Arizona	$ 317,160	$ 340,767	$ 320,691
California	503,832	557,182	413,917
Florida	474,779	93,632	—
Metro New York [1]	111,423	—	—
Texas	39,255	31,723	—
Total	$ 1,446,449	$ 1,023,304	$ 734,608
Pretax income (loss)			
Arizona	$ 18,232	$ 25,681	$ 9,325
California	94,213	61,073	10,131
Florida	20,798	(492)	—
Metro New York [1]	(520)	(2,154)	(19,764)
Texas	(158)	(439)	—
Corporate	(31,500)	(16,939)	(11,857)
Total	$ 101,065	$ 66,730	$ (12,165)

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

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The following table summarizes total assets by segment:

	December 31,	
	2022	2021
	(dollars in thousands)	
Assets		
Arizona	$ 357,788	$ 360,598
California	513,549	400,292
Florida	422,045	102,158
Metro New York	45,277	124,962
Texas	26,923	35,984
Corporate	74,914	241,520
Total	$ 1,440,496	$ 1,265,514

Included in the Corporate segment assets is cash and cash equivalents of $40.3 million and $218.4 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, goodwill of $47.9 million and $20.7 million was allocated to the Florida and Arizona segments, respectively. As of December 31, 2021, $3.8 million and $20.7 million was allocated to the Florida and Arizona segments, respectively.

15. Fair Value

ASC 820, *Fair Value Measurement*, 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, 2022		December 31, 2021	
	Hierarchy	Carrying	Fair Value	Carrying	Fair Value
		(dollars in thousands)			
Liabilities:					
Construction loans [1][2]	Level 2	$ —	$ —	$ 82,617	$ 82,617
Line of credit facilities [1]	Level 2	$ 514,300	$ 514,300	$ 390,300	$ 390,300
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) In April 2022, the remaining construction loan was repaid in full.

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.

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Non-financial assets such as real estate inventories and goodwill 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 years ended December 31, 2022 and 2021, we determined that none of the Company's real estate inventories or goodwill required impairment.

Prior to being purchased by the Company in June 2022, the Private Placement Warrants were historically 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 Company's public warrants, which were exchanged on an open market, of 45.5%.

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

	December 31,	
	2022	2021
	(dollars in thousands)	
Warrant liability		
Beginning balance [1]	$ 9,185	$ 11,275
Changes in fair value	7,315	(2,090)
Repurchases of warrants	(16,500)	—
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.

16. Stock-Based Compensation

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 common stock for issuance under the Plan. As of December 31, 2022, approximately3.4 million shares of common stock remained available for issuance under the Plan.

In 2021, 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. Each award is conditioned upon the Company achieving adjusted EPS targets over these performance periods. Target awards of 100% will be earned if the Company's adjusted EPS meets set thresholds in each of the performance periods. 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.

In 2022, 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 cumulative revenue and return on equity ("ROE") over fiscal years 2023-2025, and in some cases, 2023-2027. Each award is conditioned upon the Company achieving cumulative revenue and ROE targets over these performance periods. Target awards of 100% will be earned if the Company's cumulative revenue and ROE meet set thresholds in each of the performance periods. If cumulative revenue and ROE is below or above the target thresholds by defined amounts, an award may still be earned in a range between 50%-400% of the target with amounts greater than200% of the target paid in cash.

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The following table presents a summary of the Company's nonvested PSUs and RSUs as of December 31, 2022 and 2021 and changes during the years then ended:

	Year Ended December 31,					
	2022			2021		
	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	768	$	9.43	—	$	—
Granted	1,135		8.48	886		9.45
Vested	(278)		9.19	(118)		9.55
Forfeited	—		—	—		—
Outstanding, end of the year	1,625	$	8.82	768	$	9.43

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

The following table presents a summary of the Company's stock options activity for the year ended December 31, 2022:

	Number of Shares		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
	(in thousands)			*(in years)*		*(in thousands)*
Options outstanding at December 31, 2021	—	$	—			
Granted	744		8.82			
Exercised	—		—			
Forfeited	(60)		8.83			
Options outstanding at December 31, 2022 (1)	684	$	8.82	8.06	$	—
Options exercisable at December 31, 2022	—	$	—	—	$	—

(1) As of December 31, 2022, the stock options were out-of-the-money, as the exercise price of the stock options exceeded the average market price of the Company's common stock.

Stock-based compensation expense totaled $3.6 million and $5.8 million during the years ended December 31, 2022 and 2021, respectively, and is included in general and administrative expenses on the consolidated statements of operations. The Company did not grant any RSUs or PSUs and did not recognize any stock-based compensation expense during the year ended December 31, 2020.

The following table presents a summary of the Company's outstanding RSUs and PSUs, assuming the current estimated level of performance achievement (in thousands, except years):

	December 31, 2022	
	(in thousands, except years)	
Unvested units		1,625
Remaining cost on unvested units	$	3,775
Remaining vesting period		4.00 years

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

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During 2018, Landsea Holdings created a long-term incentive compensation program to enable key employees to participate in the Company's future growth through the issuance of phantom equity awards. 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 Landsea Homes and the program was terminated. The Company recorded $2.7 million in general and administrative expenses during 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.

17. 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, 2022, there were 42.1 million shares of common stock issued and $40.9 million 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 common stock and Class B common stock. 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.

In January 2022, the Board of Directors authorized a stock repurchase program. The program allowed for the repurchase of up to $10.0 million worth of common stock, inclusive of associated fees, so long as the purchase price per share did not exceed $15.00 per share. The authorization to effect stock repurchases expired on June 30, 2022, with no remaining capacity to repurchase common stock. During the six months ended June 30, 2022, the Company repurchased 1,160,751 shares of common stock for a total of $10.0 million, which was recorded as a reduction to additional paid-in capital.

In April 2022, the Board of Directors authorized an extension of the stock repurchase program and an additional $10.0 million of capacity to repurchase common stock, which expired December 31, 2022. During the year ended December 31, 2022 the Company repurchased 65,775 shares of common stock for $0.3 million and the remaining authorization of $9.7 million expired unused as of December 31, 2022.

In May 2022, the Board of Directors authorized a repurchase of 4,398,826 shares of common stock directly from the Company's majority shareholder for $30.0 million, or a price of $6.82 per share. The Company consummated this repurchase and retired the shares in June 2022. Refer to *Note 12 – Related Party Transactions* for additional information.

Subsequent to December 31, 2022, in March 2023, the Board of Directors authorized an extension of our stock repurchase program for the repurchase of $10.0 million worth of common stock which expires December 31, 2023.

As of December 31, 2022 there were 15,525,000 outstanding Warrants, consisting entirely of public warrants. At the time of the Merger, the Warrant Agreement was amended so that 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 per warrant for a total of $28.7 million paid by the Company upon closing of the Merger. The Warrants will expire five years after the completion of the Merger or earlier upon redemption or liquidation.

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The Company may call the public warrants for redemption:

- 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.

In June 2022, the Company repurchased all 5.5 million outstanding Private Placement Warrants, which were exercisable at $11.50 into one share of common stock. The Company paid $16.5 million, or $3.00 per warrant, to repurchase all of the outstanding Private Placement Warrants. This amount included $6.6 million for the repurchase of 2.2 million of the Private Placement Warrants that were held by the Company's majority shareholder, Landsea Holdings, and $8.4 million to Level Field Capital, LLC, a related party, for the repurchase of 2.8 million Private Placement Warrants. Refer to *Note 12 – Related Party Transactions* for additional information. The loss recognized on the repurchase of the Private Placement Warrants is recorded as loss on remeasurement of warrant liability on the Company's consolidated statements of operations.

18. Earnings Per Share

The following table sets forth the computation of basic and diluted EPS for the years presented:

	Year Ended December 31,		
	2022	2021	2020
	(in thousands, except share and per share amounts)		
Numerator			
Net income (loss) attributable to Landsea Homes Corporation	$ 73,551	$ 52,786	$ (8,951)
Less: undistributed earnings allocated to participating shares	(1,706)	(1,161)	—
Net income (loss) attributable to common stockholders	$ 71,845	$ 51,625	$ (8,951)
Denominator			
Weighted average common shares outstanding - basic	43,052,696	46,193,166	32,557,303
Adjustment for weighted average participating shares outstanding	(1,000,000)	(994,444)	—
Adjusted weighted average common shares outstanding under two class method - basic	42,052,696	45,198,722	32,557,303
Dilutive effect of share-based awards	146,766	51,996	—
Adjusted weighted average common shares outstanding under two class method - diluted	42,199,462	45,250,718	32,557,303
Earnings (loss) per share			
Basic	$ 1.71	$ 1.14	$ (0.27)
Diluted	$ 1.70	$ 1.14	$ (0.27)

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The Company excluded 2.1 million common stock equivalents from diluted EPS related to antidilutive warrants, options, and share-based awards during the year ended December 31, 2022. The Company excluded 7.1 million common stock equivalents from diluted EPS during the year ended December 31, 2021.

19. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Year Ended December 31,		
	2022	2021	2020
		(dollars in thousands)	
Supplemental disclosures of cash flow information			
Interest paid, net of amounts capitalized	$ —	$ 32	$ 15
Income taxes paid	$ 40,367	$ 7,575	$ 7,309
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	$ —
Right-of-use assets obtained in exchange for operating lease liabilities for new or modified operating leases	$ 7,380	$ 6,688	$ 1,053
Distribution of real estate joint venture to Landsea Holdings, net of cash provided	$ —	$ —	$ 27,294
Business acquisition holdback	$ —	$ —	$ 2,000
Cash, cash equivalents, and restricted cash reconciliation			
Cash and cash equivalents	$ 123,634	$ 342,810	$ 105,778
Restricted cash	—	443	4,270
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 123,634	$ 343,253	$ 110,048

The following is an extract of the audited financial statements of Landsea Homes Corporation 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.

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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.

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Item 8. Financial Statements

Landsea Homes Corporation
Index to Consolidated Financial Statements

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	December 31, 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.

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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.

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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.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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.

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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

Landsea Homes Corporation
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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

Landsea Homes Corporation
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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	December 31, 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	December 31, 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	December 31, 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	December 31, 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)*:

Landsea Homes Corporation
Notes to Consolidated Financial Statements

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

Landsea Homes Corporation
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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%.

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

	December 31, 2021	December 31, 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.

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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

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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.

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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.

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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 Landsea Homes Corporation for the year ended 31 December 2020, which were prepared in accordance with U.S. GAAP, from the 2020 Annual Report on Form 10-K of Landsea Homes Corporation issued on 12 March 2021.

The 2020 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://ir.landseahomes.com/sec-filings/all-sec-filings/content/0001731122-21-000373/0001731122-21-000373.pdf

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

Except where the context requires otherwise, references to "we," "us," "our" or the "Company" in this section are to LF Capital Acquisition Corp. (now known as Landsea Homes Corporation). The following discussion should be read in conjunction with our financial statements and related notes thereto included elsewhere in this Annual Report.

Overview

As of December 31, 2020, we were a blank check company incorporated as a Delaware corporation and 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. We reviewed a number of opportunities to enter into a business combination with an operating business.

On June 22, 2018, we consummated an initial public offering (the "Initial Public Offering") of 15,525,000 units (consisting of one share of Class A common stock, $0.0001 par value, and one warrant to purchase one share of Class A common stock, collectively, a "Unit"), 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.

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

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 was 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 us, until the earlier of: (i) the completion of a business combination and (ii) the distribution of the Trust Account.

Our management had broad discretion with respect to the specific application of the net proceeds of the Initial Public Offering and the Private Placement, although substantially all of the net proceeds were intended to be applied generally toward consummating a business combination.

On June 16, 2020, we held a special meeting of shareholders to extend (the "Extension") the date by which we had to complete an initial business combination from June 22, 2020 to September 22, 2020. The Extension was approved, and in connection with the vote to approve the Extension, the holders of 2,089,939 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.46 per share, for an aggregate redemption amount of approximately $21.9 million.

On August 31, 2020, we entered into an Agreement and Plan of Merger (the "Merger Agreement"), with LFCA Merger Sub, Inc., a Delaware corporation and our direct, wholly-owned subsidiary ("Merger Sub"), Landsea Homes Incorporated, a Delaware corporation ("Landsea"), and Landsea Holdings Corporation, a Delaware corporation (the "Seller"), which provided for, among other things, the merger of Merger Sub with and into Landsea, with Landsea continuing as the surviving corporation (the "Merger"). This transaction constituted a business combination.

On September 17, 2020, we held a special meeting of shareholders to extend (the "September Extension") the date by which we had to complete an initial business combination from September 22, 2020 to December 22, 2020. The September Extension was approved, and in connection with the vote to approve the September Extension, in September 2020 the holders of 1,215,698 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.57 per share, for an aggregate redemption amount of approximately $12.8 million.

We had previously deposited into the Trust Account (each deposit being referred to herein as a "Deposit") $0.03 per month (or an aggregate of $0.09) for each public share that was not converted in connection with the Extension of our termination date from June 22, 2020 through September 22, 2020. During the year ended December 31, 2020, we made a Deposit of approximately $1.2 million to the Trust Account. On September 17, 2020, the special meeting held for the September Extension also eliminated the Deposits after September 22, 2020.

On December 21, 2020, we held a special meeting of shareholders to extend (the "December Extension") the date by which we had to complete an initial business combination from December 22, 2020 to January 22, 2021 (the "Combination Period"). The December Extension was approved, and in connection with the vote to approve the December Extension, in December 2020 the holders of 1,826,891 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.56 per share, for an aggregate redemption amount of approximately $19.3 million.

On January 7, 2021, the Company consummated the Business Combination.

Results of Operations

Our entire activity from inception to June 20, 2018 was in preparation for our Initial Public Offering. From the Initial Public Offering to January 7, 2021, our activity was limited to the search for, and completion of, a business combination.

For the year ended December 31, 2020, we had a net loss of approximately $2.1 million, which consisted of approximately $2.5 million in general and administrative expenses, approximately $200,000 in franchise tax expense, and approximately $120,000 in income tax expense which was partially offset by approximately $694,000 in interest earned on investments and marketable securities held in the Trust Account.

For the year ended December 31, 2019, we had net income of approximately $1.8 million, which consisted of approximately $3.5 million in interest earned on investments and marketable securities held in the Trust Account, offset by approximately $826,000 in general and administrative expenses, $200,000 in franchise tax expense, and approximately $676,000 in income tax expense.

Liquidity and Capital Resources

As of December 31, 2020, we had approximately $69,000 in our operating bank accounts, and working capital deficit of approximately $4.4 million (including tax obligations of approximately $40,000).

Through December 31, 2020, our liquidity needs were satisfied through receipt of a $25,000 capital contribution from the Sponsor in exchange for the issuance of the Founder Shares to the Sponsor, loans from the Sponsor, and the proceeds from the consummation of the Private Placement not held in Trust Account, and interest earned and released from the Trust Account of approximately $1.7 million since inception to pay for our tax obligations. We fully repaid the loan from the proceeds of the Initial Public Offering not being placed in the Trust Account on June 22, 2018.

On March 4, 2019, we issued a convertible note (the "Convertible Note") to our Sponsor, pursuant to which our Sponsor agreed to provide a working capital loan (the "Working Capital Loan") to us of up to $1.5 million. The Working Capital Loans would either be repaid upon consummation of a business combination, without interest, or, at the lender's discretion, up to $1.5 million of such Working Capital Loan 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. We were provided $750,000 and $750,000 in loan proceeds during the year ended December 31, 2020 and 2019, respectively, for an aggregate amount of $1.5 million, pursuant to the amended Convertible Note. In connection with the Merger, the Convertible Note was repaid on January 7, 2021.

On July 16, 2020, we issued a $3.0 million promissory note (the "Promissory Note") to our Sponsor, pursuant to which our Sponsor agreed to provide a working capital loan to us of up to $3.0 million. The Promissory Note will be repaid on the earlier of (i) December 31, 2020 and (ii) the effective date of a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination, involving us and one or more businesses, without interest. On January 6, 2021, the Company amended the maturity date of the Promissory Note to be repaid on the later of: (i) December 31, 2020 and (ii) the closing date of the Business Combination. On July 16, 2020, we were provided an advance of $1.0 million in loan proceeds pursuant to the Promissory Note which increased the principal balance of the Promissory Note to $1.0 million. In connection with the Merger, the Promissory Note was repaid on January 7, 2021.

We had sufficient cash on hand to fund operations through the date of the Merger on January 7, 2021. Subsequent to the Merger, management believes that we will be able to fund current and foreseeable liquidity needs with 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.

Related Party Transactions

Founder Shares

In August 2017, we issued the Founder Shares 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 June 22, 2018, the underwriter exercised its over-allotment option in full, hence, these 506,250 shares were no longer subject to forfeiture.

The Founder Shares automatically converted into Class A common stock upon the consummation of a business combination on a one-for-one basis, subject to adjustment. The Sponsor and certain other holders of converted Founder Shares agreed not to transfer, assign or sell any of their converted Founder Shares until the earliest of (A) one year after the completion of the Business Combination or (B) subsequent to the Business Combination, (x) if the last sale price of our Common Stock equals or exceeds $12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after the Business Combination, or (y) the date on which we complete a liquidation, merger, capital stock exchange, reorganization or other similar transaction that results in all of our stockholders having the right to exchange their shares of common stock for cash, securities or other property, except (a) to our officers or directors, any affiliates or family members of any of our officers or directors, any members of the Sponsor, or any affiliates of the Sponsor, (b) in the case of an individual, by gift to a member of the individual's immediate family, to a trust, the beneficiary of which is a member of the individual's immediate family or an affiliate of such person, or to a charitable organization; (c) in the case of an individual, by virtue of laws of descent and distribution upon death of the individual; (d) in the case of an individual, pursuant to a qualified domestic relations order; (e) by private sales; (f) in the event of our liquidation; (g) by virtue of the laws of Delaware or the Sponsor's limited liability company agreement upon dissolution of the Sponsor; (h) in the event of our liquidation, merger, capital stock exchange, reorganization or other similar transaction which results in all of our stockholders having the right to exchange their shares of common stock for cash, securities or other property subsequent to the completion of the Business Combination; provided, however, that in the case of clauses (a) through (e) these permitted transferees must enter into a written agreement agreeing to be bound by these transfer restrictions.

Office Space and Related Support Services

We agreed, commencing on the effective date of the Initial Public Offering in June 2018 through the earlier of our consummation of a business combination and our liquidation, to pay our Sponsor a monthly fee of $10,000 or an affiliate of our sponsor for office space, utilities and secretarial and administrative support. We incurred $110,000 and $120,000 in fees related to this service during the years ended December 31, 2020 and 2019 in the accompanying Statements of Operations.

Board Member Agreement

In September 2017, we entered into an agreement with B. Prot Conseils, an entity controlled by Mr. Baudouin Prot, one of our 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 October 1, 2017 and lasted until December 2019. We incurred $150,000 in fees related to this service during the year ended December 31, 2019 in the accompanying Statements of Operations. On February 20, 2020, we have agreed to amend our arrangement with Mr. Prot, pursuant to which no further monthly fees will be paid on a current monthly basis to Mr. Prot, however, if we complete our acquisition of a target company prior to June 18, 2020, we shall pay Mr. Prot $12,500 for each month Mr. Prot has continued to provide services to us since January 1, 2020. On August 3, 2020, we agreed to amend our arrangement with Mr. Prot pursuant to which he will be paid an aggregate of $75,000 for January through June 2020 so long as Mr. Prot continues to provide services to our company to substantially the same extent as he previously provided such services and we successfully complete our acquisition of a target company prior to December 31, 2020. If we do not complete our acquisition of a target company prior to December 31, 2020, then no further fees will be due to Mr. Prot. The Company accrued $75,000 in fees related to this service for the year ended December 31, 2020, in the accompanying Statements of Operations and paid this out at the time of closing of the Business Combination.

Promissory Notes - Related Party

Our Sponsor had agreed to loan us an aggregate of up to $300,000 to be used for the payment of costs related to the Initial Public Offering. In April 2018, our 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 December 31, 2019 or the closing of the Initial Public Offering. We fully repaid the loan from the proceeds of the Initial Public Offering not being placed in the Trust Account on June 22, 2018.

On July 16, 2020, we issued the Promissory Note to our Sponsor, pursuant to which our Sponsor agreed to provide a working capital loan to us of up to $3 million. The Promissory Note will be repaid on the earlier of (i) December 31, 2020 and (ii) the effective date of a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination, involving us and one or more businesses, without interest. On January 6, 2021, the Company amended the maturity date of the Promissory Note to be repaid on the later of: (i) December 31, 2020 and (ii) the closing date of the Business Combination. On July 16, 2020, we were provided an advance of $1.0 million in loan proceeds pursuant to the Promissory Note which increased the principal balance of the Promissory Note to $1.0 million. The Sponsor agreed to forgive all amounts due under the Promissory Note for no consideration upon the consummation of the Business Combination. See the “Business Combination” described in Note 1 of the Notes To Financial Statements for additional discussion.

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 our officers and directors may, but are not obligated to, loan us Working Capital Loans. If we complete a business combination, we would repay the Working Capital Loans out of the proceeds of the Trust Account released to us. 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, we 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.

On March 4, 2019, we issued the Convertible Note to our Sponsor, pursuant to which our Sponsor agreed to provide a Working Capital Loan to us of up to $1.5 million. On June 16, 2020, we amended the Convertible Note, pursuant to which the maturity date of the note was extended to the earlier of (i) December 31, 2020 and (ii) the effective date of a merger, share exchange, asset acquisition, share purchase, reorganization or similar business combination, involving us and one or more businesses. We were provided $750,000 in loan proceeds during the year ended 2020 and 2019, respectively, for an aggregate of $1.5 million outstanding balance pursuant to the amended Convertible Note. However, the Sponsor agreed to receive as full repayment of the Convertible Note, a cash payment upon the consummation of the Business Combination, which occurred on January 7, 2021. See “Business Combination” described in Note 1 of the Notes To Financial Statements for additional discussion.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates. The Company has identified the following as its critical accounting policies:

Net Income (Loss) per Share

We comply 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. We have 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. Our condensed statement of operations includes 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 period.

Class A Common Stock Subject to Possible Redemption

We account for our 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 our control) are classified as temporary equity. At all other times, shares of Class A common stock are classified as stockholders’ equity. Our Class A common stock features certain redemption rights that are considered to be outside of our control and subject to the occurrence of uncertain future events. Accordingly, at December 31, 2019, 14,461,820 shares of Class A common stock subject to possible redemption are presented as temporary equity, outside of the stockholders’ equity section of our balance sheets. As of December 31, 2020, there were no further redemptions permitted and the shares that were subject to redemption have been reclassified back into Class A common stock.

Off-Balance Sheet Arrangements and Contractual Obligations

As of December 31, 2020 and 2019, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K and did not have any commitments or contractual obligations.

Item 8. Financial Statements and Supplementary Data

LANDSEA HOMES CORP.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Landsea Homes Corporation

Opinion on the Financial Statements
We have audited the accompanying balance sheets of Landsea Homes Corporation (Formerly LF Capital Acquisition Corp.) (the "Company") as of December 31, 2020 and 2019, the related statements of operations, changes in stockholders' equity, and cash flows and the related notes to the financial statements (collectively, the financial statements) for the years ended December 31, 2020 and 2019. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, 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.

Merger Agreement
As discussed in Note 10 to the financial statements, on January 7, 2021 the Company completed the business combination pursuant to the Merger Agreement described in Note 1.

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
March 12, 2021

LANDSEA HOMES CORP.
BALANCE SHEETS

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 68,986	$ 161,405
Prepaid expenses	1,598	304,077
Total current assets	70,584	465,482
Marketable securities held in Trust Account	109,742,246	162,019,909
Total assets	**$ 109,812,830**	**$ 162,485,391**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,961,576	$ 121,516
Accrued expenses	-	30,610
Convertible note payable - related parties	1,500,000	750,000
Promissory note – related party	1,000,000	-
Franchise tax payable	40,051	40,000
Total current liabilities	4,501,627	942,126
Deferred tax liabilities	-	128,105
Deferred underwriting commissions	5,433,750	5,433,750
Total liabilities	9,935,377	6,503,981
Commitments		
Class A common stock, $0.0001 par value; 0 and 14,461,820 shares subject to possible redemption at $0 and $10.44 per share at December 31, 2020 and 2019, respectively	-	150,981,401
Stockholders' Equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued and outstanding at December 31, 2020 and 2019, respectively	-	-
Class A common stock, $0.0001 par value; 100,000,000 shares authorized; 10,392,472 and 1,063,180 shares issued and outstanding (excluding 0 and 14,461,820 shares subject to possible redemption) at December 31, 2020 and 2019, respectively	1,039	106
Convertible Class B common stock, $0.0001 par value; 15,000,000 shares authorized; 3,881,250 shares issued and outstanding at December 31, 2020 and 2019, respectively	388	388
Additional paid-in capital	99,730,418	2,757,412
Retained earnings	145,608	2,242,103
Total stockholders' equity	99,877,453	5,000,009
Total Liabilities and Stockholders' Equity	**$ 109,812,830**	**$ 162,485,391**

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

LANDSEA HOMES CORP.
STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2020	2019
General and administrative expenses	$ 2,470,314	$ 826,307
Franchise tax expense	200,051	200,000
Loss from operations	(2,670,365)	(1,026,307)
Interest earned on investments and marketable securities	694,319	3,473,997
(Loss) income before income tax expense	(1,976,046)	2,447,690
Income tax expense	120,449	675,854
Net (loss) income	$ (2,096,495)	$ 1,771,836
Weighted average shares outstanding of Class A common stock	14,006,380	15,525,000
Basic and diluted net income per share, Class A	$ 0.03	$ 0.17
Weighted average shares outstanding of Class B common stock	3,881,250	3,881,250
Basic and diluted net loss per share, Class B	$ (0.64)	$ (0.21)

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

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LANDSEA HOMES CORP.
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			
Balance December 31, 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 December 31, 2019	**1,063,180**	**$ 106**	**3,881,250**	**$ 388**	**$ 2,757,412**	**$ 2,242,103**	**$ 5,000,009**
Common stock no longer subject to redemption (1)	9,329,292	933	-	-	96,973,006	-	96,973,939
Net loss	-	-	-	-	-	(2,096,495)	(2,096,495)
Balance December 31, 2020	**10,392,472**	**$ 1,039**	**3,881,250**	**$ 388**	**$ 99,730,418**	**$ 145,608**	**$ 99,877,453**

(1) Amount net of redemption of 2,089,939, 1,215,698 and 1,826,891 of Class A common stock on June 16, 2020, September 21, 2020 and December 21, 2020, respectively.

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

LANDSEA HOMES CORP.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2020	2019
Cash Flows from Operating Activities:		
Net (loss) income	$ (2,096,495)	$ 1,771,836
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred tax liabilities	(128,105)	128,105
Interest earned on investments and marketable securities held in Trust Account	(694,311)	(3,473,528)
Changes in operating assets and liabilities:		
Prepaid expenses	302,479	(260,863)
Accounts payable	1,840,060	13,224
Accrued expenses	(30,610)	24,110)
Franchise tax payable	51	(160,000
Net cash used in operating activities	(806,931)	(1,957,116)
Cash Flows from Investing Activities		
Cash deposited in Trust Account	(1,469,038)	-
Withdrawal from Trust upon redemption of Class A common stock	54,007,462	-
Interest released from Trust Account	433,550	1,171,717
Net cash provided by investing activities	52,971,974	1,171,717
Cash Flows from Financing Activities:		
Proceeds from note payable to related parties	750,000	750,000
Proceeds from promissory note – related party	1,000,000	-
Redemption of Class A common stock	(54,007,462)	-
Net cash (used in) provided by financing activities	(52,257,462)	750,000
Net decrease in cash	(92,419)	(35,399
Cash and cash equivalents - beginning of the period	161,405	196,804
Cash and cash equivalents - end of the period	**$ 68,986**	**$ 161,405**
Supplemental disclosure of noncash investing and financing activities:		
Change in Class A common stock subject to possible redemption	$ (96,973,939)	$ 1,771,832
Supplemental cash flow disclosure:		
Cash paid for income taxes	$ 233,500	$ 811,467

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

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LANDSEA HOMES CORP.
NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Organization and Business Operations

LF Capital Acquisition Corp. (now known as Landsea Homes Corp.) (the "Company") was a blank check company incorporated in the state of Delaware on June 29, 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"). The Company was not limited to a particular industry or geographic region for purposes of consummating a Business Combination.

On August 31, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among the Company, LFCA Merger Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of the Company ("Merger Sub"), Landsea Homes Incorporated, a Delaware corporation ("Landsea"), and Landsea Holdings Corporation, a Delaware corporation (the "Seller"), which provides for, among other things the merger of Merger Sub with and into Landsea, with Landsea continuing as the surviving corporation (the "Merger"). On January 7, 2021, the Company completed the business combination. See the Business Combination described below.

All activity through December 31, 2020 relates to the Company's formation, 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 December 31 as its fiscal year end.

The registration statement for the Company's Initial Public Offering was declared effective on June 19, 2018. On June 22, 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 had 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 were intended to be applied generally toward consummating a Business Combination. The Company's initial Business Combination was required to be with one or more target businesses that together had 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 would 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.

Shareholders of Public shares ("Public Shareholders") had 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 would seek shareholder approval of a Business Combination or conduct a tender offer was to be made by the Company, solely in its discretion.) If, however, shareholder approval of the transaction was required by law or stock exchange listing requirement, or the Company decided 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 were 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 redeemed their Public shares were not reduced by the deferred underwriting commissions the Company payable 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 were 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), were 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.

On June 16, 2020, the Company held a special meeting of shareholders to extend (the "Extension") the date by which the Company has to complete an initial Business Combination from June 22, 2020 to September 22, 2020. The Extension was approved, and in connection with the vote to approve the Extension, in June 2020 the holders of 2,089,939 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.46 per share, for an aggregate redemption amount of approximately $21.9 million.

On September 17, 2020, the Company held a special meeting of shareholders to extend (the "September Extension") the date by which the Company has to complete an initial Business Combination from September 22, 2020 to December 22, 2020. The September Extension was approved, and in connection with the vote to approve the September Extension, in September 2020 the holders of 1,215,698 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.57 per share, for an aggregate redemption amount of approximately $12.8 million.

On December 21, 2020, the Company held a special meeting of shareholders to extend (the "December Extension") the date by which the Company has to complete an initial Business Combination from December 22, 2020 to January 22, 2021 (the "Combination Period"). The December Extension was approved, and in connection with the vote to approve the December Extension, in December 2020 the holders of 1,826,891 shares of Class A common stock properly exercised their right to redeem their shares for cash at a redemption price of approximately $10.56 per share, for an aggregate redemption amount of approximately $19.3 million.

The Company previously deposited into the Trust Account (each deposit being referred to herein as a "Deposit") $0.03 per month (or an aggregate of $0.09) for each public share that was not converted in connection with the Extension of the Company's termination date from June 22, 2020 through September 22, 2020. During the year ended December 31, 2020, the Company made a Deposit of approximately $1.2 million to the Trust Account. Alternatively, if the Company did not have the funds necessary to make the Deposit referred to above, the Company's officers, directors or any of their affiliates or designees contributed to the Company as a loan (each loan being referred to herein as a "Contribution") $0.03 for each public share that is not converted in connection with the shareholder votes to approve the Extension, for each monthly period, or portion thereof, that was needed by the Company to complete an initial Business Combination from June 22, 2020 until the date of the consummation of its Business Combination. The Contributions did not bear any interest and were repayable by the Company to the officers, directors or affiliates upon consummation of an initial Business Combination. The loans were to be forgiven if the Company was unable to consummate an initial Business Combination except to the extent of any funds held outside of the Trust Account. On September 17, 2020, the Company held a special meeting for the September Extension which eliminated further Deposits after September 22, 2020.

If the Company was unable to complete a Business Combination within the Combination Period, the Company would have been required to (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 would 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 would have received 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 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 acquired Public shares in or after the Initial Public Offering, they were entitled to liquidating distributions from the Trust Account with respect to such Public shares if the Company failed to complete a Business Combination within the Combination Period. The underwriters agreed to waive their rights to their deferred underwriting commission (see Note 6) held in the Trust Account in the event the Company did not complete a Business Combination within the Combination Period and, in such event, such amounts would have been included with the funds held in the Trust Account that were available to fund the redemption of the Company's Public shares. 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 did 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 was deemed to be unenforceable against a third party, the Sponsor would not be responsible to the extent of any liability for such third-party claims.

The Company sought 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.

Business Combination

On August 31, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among the Company, LFCA Merger Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of the Company ("Merger Sub"), Landsea Homes Incorporated, a Delaware corporation ("Landsea"), and Landsea Holdings Corporation, a Delaware corporation (the "Seller"), which provides for, among other things the merger of Merger Sub with and into Landsea, with Landsea continuing as the surviving corporation (the "Merger"). The transactions set forth in the Merger Agreement, including the Merger, will constitute a "Business Combination" as contemplated by the Company's Amended and Restated Certificate of Incorporation. On January 7, 2021, the Company consummated the Business Combination.

Subject to the terms of the Merger Agreement, the Seller received approximately $344 million of stock consideration, consisting of 32,557,303 newly issued shares of the Company's publicly-traded Class A common stock, which shares will be valued at $10.56 per share for purposes of determining the aggregate number of shares payable to the Seller (the "Stock Consideration"). The number of shares of Class A common stock issued to the Seller as Stock Consideration is not subject to adjustment. The Seller has registration rights under the Merger Agreement in respect of the Stock Consideration.

Each of the Company, Merger Sub and Landsea are making customary representations and warranties for a transaction of this type. The representations and warranties made by parties to the Merger Agreement do not survive after the closing of the Merger. The parties to the Merger Agreement also have agreed to certain customary covenants in connection with the Merger, including, among others, covenants with respect to the conduct of the Company, Merger Sub and Landsea and its subsidiaries prior to the closing of the Merger. The Company has agreed to seek approval of the holders of at least 65% of the Company's public warrants to effect an amendment to the warrant agreement related to the public warrants such that, as of the closing of the Merger, (i) each issued and outstanding public warrant, which currently entitles each holder thereof to purchase one share of Parent Class A Stock at an exercise price of $11.50 per share, will become exercisable for one-tenth of one share at an exercise price of $1.15 per one-tenth share ($11.50 per whole share) and (ii) each holder of public warrants issued and outstanding immediately prior to the closing of the Merger will be entitled to receive from the Company a one-time payment of $1.85 per public warrant, contingent upon the consummation of the closing.

The Merger is subject to customary conditions for a transaction of this type, including, among others: (i) approval of the Company's stockholders; (ii) approval of Landsea's sole stockholder; (iii) there being no laws or injunctions by governmental authorities or other legal restraint prohibiting consummation of the transactions contemplated under the Merger Agreement; (iv) the waiting period applicable to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, having expired (or early termination having been granted); (v) the shares of the Company's Class A common stock to be issued in connection with the closing of the Merger shall have been approved for listing upon the closing on Nasdaq; (vi) the Company having at least $5,000,001 in net tangible assets; (vii) the amount in the Company's trust account equally or exceeding $90,000,000, after deducting certain transaction expenses and other costs; and (viii) receipt of the required regulatory approvals by the Hong Kong Stock Exchange by certain Landsea affiliates.

Concurrent with the execution of the Merger Agreement, the Sponsor, the Company, the Seller, and Landsea entered into the Sponsor Transfer, Waiver, Forfeiture and Deferral Agreement (the "Sponsor Surrender Agreement"), pursuant to which the Sponsor agreed, upon closing of the business combination, to (i) forfeit to the Company for no consideration 2,260,000 warrants held by the Sponsor, (ii) forfeit to the Company for no consideration 600,000 shares of Class B common stock held by the Sponsor, (iii) transfer to the Seller for no consideration 2,200,000 warrants, (iv) transfer to the Seller for no consideration 500,000 shares of Class A common stock held by the Sponsor following the conversion upon consummation of the Merger of 500,000 shares of Class B common stock held by the Sponsor, (v) defer the conversion of 500,000 shares of its Class B common stock contingent upon the valuation of the Class A common stock reaching certain thresholds during the twenty-four month period following the closing of the Merger, (vi) exercise any warrants held by the Sponsor to purchase Class A common stock solely on a cashless basis, (vii) waive its right to convert the outstanding principal due under that certain Convertible Promissory Note, dated March 4, 2019, as amended, by and between Sponsor and the Company, to warrants of the Company in lieu of cash payment upon the consummation of the Merger, and (viii) cancel that certain $1,000,000 working capital loan to the Company pursuant to that certain Promissory Note entered into with the Company, dated as of July 16, 2020, in each case on terms and subject to the conditions set forth therein.

Concurrent with the execution of the Merger Agreement, the Company, the Seller and Landsea, entered into waiver agreements (the "Waiver Agreements") with certain holders of the Company's shares of Class B common stock, pursuant to which, each holder agreed to (i) waive their redemption rights with respect to any Class A common stock they may own, (ii) waive certain of their anti-dilution and conversion and redemption rights with respect to their shares of Class B common stock, and (iii) convert their shares of Class B common stock into shares of Class A common stock on a one-for-one basis, in each case on terms and subject to the conditions set forth therein.

Concurrent with the execution of the Merger Agreement, the Company also entered into a Waiver Agreement with certain funds managed by BlackRock (the "BlackRock Holders") that hold shares of Class B common stock (the "BlackRock Waiver"), pursuant to which, each holder (i) agreed to waive certain of their anti-dilution rights with respect to their shares of Class B common stock, and (ii) acknowledged that the shares of Class B common stock held by the Blackrock Holders convert into shares of the Class A common stock on a one-for-one basis upon the consummation of the Merger, in each case on terms and subject to the conditions set forth in the Amended and Restated Certificate of Incorporation.

Concurrent with the execution of the Merger Agreement, the Company entered into an indemnification agreement with the Seller and the Sponsor (the "Indemnification Agreement"), whereby the Company agreed that it would (i) not amend, waive, terminate or otherwise modify the BlackRock Waiver without the prior written consent of the Seller and (ii) enforce the obligations thereunder. The Sponsor agreed to (i) indemnify the Company and the Seller for all reasonably documented out-of-pocket costs the Company or Seller may incur in connection with enforcing the Indemnification Agreement and the BlackRock Waiver and (ii) immediately after the Closing, forfeit such number of Class A common stock of the Company equal to the number of shares of Class B common stock held by the BlackRock Holders that are converted into Class A common stock at or as a result of the Closing less the number of Class B common stock held by the BlackRock Holders immediately prior to the Closing.

Concurrent with the execution of the Merger Agreement, the Company, the Seller and certain of the holders of the Company's shares of Class B common Stock (the "LF Capital Restricted Stockholders"), entered into a Voting and Support Agreement with the Company (the "Voting and Support Agreement"), pursuant to which each of the LF Capital Restricted Stockholders party to the Voting and Support Agreement agreed to, among other things, vote their Class B common stock and other acquired common stock (representing as of the date hereof approximately 21.01% of the voting power of the Company) (i) in favor of the adoption of the Merger Agreement and the accompanying transaction, (ii) against any action, proposals, transaction or agreement that would result in a breach of any representation, warrant, covenant, obligation or agreement of the Company or Merger Sub contained in the Merger Agreement, and (iii) in favor or the proposals to be set forth in the proxy statement to be filed by the Company with the Securities and Exchange Commission (the "SEC") in connection with the approval of the Merger and each of the other proposals of the Company set forth in therein (the "Proxy Statement"). Additionally, each LF Capital Restricted Stockholder party to the Voting and Support Agreement has agreed to certain standstill obligations, in each case on terms and subject to the conditions set forth therein. The Voting and Support Agreement will terminate upon the earlier to occur of, (x) as to each LF Capital Restricted Stockholder, the mutual written consent of the Seller and such LF Capital Restricted Stockholder, (y) the closing of the Merger, and (z) the date of termination of the Merger Agreement.

Concurrent with the execution of the Merger Agreement, the Company has entered into certain Forward Purchase and Subscription Agreements (each, a "Forward Purchase Agreement") with certain subscribers (the "Subscribers"), pursuant to which the Subscribers have agreed to purchase up to an aggregate of $35 million of shares of the Company's Class A common stock in the public markets at a price per share not greater than $10.56 per share, at any time or from time to time prior to the record date for the special meeting of the Company's stockholders (the "Special Meeting") relating to the approval of the Merger and the other proposals of the Company set forth in the Proxy Statement. The Subscribers have agreed to vote their shares of Class A common stock acquired pursuant to the Forward Purchase Agreement in favor of the Merger and each of the other proposals to be set forth in the Proxy Statement. In addition, the Subscribers have agreed not to exercise their redemption rights with respect to any of their shares of Class A common stock acquired pursuant to the Forward Purchase Agreement in connection with the Special Meeting or in connection with the Company's proposal to extend the Outside Date. In consideration for entering into the Forward Purchase Agreement, the Company will issue a certain number of shares of Class A common stock to such Subscribers for no consideration and the Sponsor has agreed to concurrently forfeit a number of shares of Class B common stock equal to the aggregate issuance to Subscribers. The Company is providing the Subscribers with certain customary registration rights in connection with the Forward Purchase Agreement.

Liquidity

As of December 31, 2020, the Company had approximately $69,000 in its operating bank accounts and working capital deficit of approximately $4.4 million (including tax obligations of approximately $40,000).

Subsequent to the consummation of the Initial Public Offering and Private Placement, the Company's liquidity needs have been satisfied 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 March 4, 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 $750,000 and $750,000 in loan proceeds during the year ended December 31, 2020 and 2019, respectively, for an aggregate amount of $1.5 million, pursuant to the amended Convertible Note (see Note 5). In connection with the Merger, the Convertible Note was repaid on January 7, 2021.

On July 16, 2020, the Company issued a $3.0 million Promissory Note (as defined in Note 5) to the Sponsor. The Promissory Note was to be repaid on the earlier of (i) December 31, 2020 and (ii) the effective date of a Business Combination, without interest. On July 16, 2020, the Company received $1.0 million in loan proceeds pursuant to the Promissory Note which increased the outstanding principal balance of the Promissory Note to $1.0 million. On January 6, 2021, the Company amended the maturity date of the Promissory Note to be repaid on the later of: (i) December 31, 2020 and (ii) the closing date of the Business Combination, which is effective as of December 31, 2020. In connection with the Merger, the Promissory Note was repaid on January 7, 2021.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve. The impact of the COVID-19 outbreak on the Company's results of operations, financial position and cash flows will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of the COVID-19 outbreak on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company's results of operations, financial position and cash flows may be materially adversely affected. To date, the COVID-19 outbreak has not had a material impact on our results of operations, financial position or cash flows.

Note 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 December 31, 2020 and 2019, 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 December 31, 2020 and 2019, 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 December 31, 2019, 14,461,820 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. As of December 31, 2020, there were no further redemptions permitted and the shares that were subject to redemption have been reclassified back into Class A common stock.

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 share

The Company's net income is adjusted for the portion of income that was 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 December 31, 2020	2019
Net (loss) income	$ (2,096,495)	$ 1,771,836
Less: Income attributable to Class A common stock	(373,819)	(2,598,143)
Adjusted net loss attributable to Class B common stock	$ (2,470,314)	$ (826,307)
Weighted average shares outstanding of Class A common stock	14,006,380	15,525,000
Basic and diluted net income per share, Class A	$ 0.03	$ 0.17
Weighted average shares outstanding of Class B common stock	3,881,250	3,881,250
Basic and diluted net loss per share, Class B	$ (0.64)	$ (0.21)

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 December 31, 2020 and 2019. 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 December 31, 2020 and 2019. 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

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. The ASU removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company's adoption of this standard on January 1, 2020, did not have a material impact on its condensed financial statements and related disclosures.

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

Note 3. Initial Public Offering

On June 22, 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).

Note 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 did not complete a Business Combination within the Combination Period, the Private Placement Warrants would expire worthless.

See the "Business Combination" described in Note 1 above, including the description of the Sponsor Surrender Agreement, pursuant to which a portion of the Private Placement Warrants will be forfeited immediately prior to (but conditioned and effective upon) completion of the proposed Merger.

Note 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 June 22, 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.

See the “Business Combination” described in Note 1 above, including the description of the Sponsor Surrender Agreement, pursuant to which a portion of the founder shares will be forfeited immediately prior to (but conditioned and effective upon) completion of the proposed Merger.

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 $110,000 and $120,000 in expenses in connection with such services during the years ended December 31, 2020 and 2019 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 is paid a cash fee of $150,000 per annum in exchange for his service. The agreement was effective as of October 1, 2017 and lasts until the consummation of the Company’s business combination. The Company incurred $150,000 in fees related to this service for the year ended December 31, 2019, in the accompanying Statements of Operations. On February 20, 2020, the Company 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 June 18, 2020, the Company shall pay Mr. Prot $12,500 for each month Mr. Prot has continued to provide services to the Company since January 1, 2020. On August 3, 2020, the Company agreed to amend its arrangement with Mr. Prot pursuant to which Mr. Prot will be paid an aggregate of $75,000 for January through June 2020 so long as Mr. Prot continues to provide services to the Company to substantially the same extent as he previously provided such services and the Company successfully completes its acquisition of a target company prior to December 31, 2020. If the Company does not complete its acquisition of a target company prior to December 31, 2020, then no further fees will be due from the Company to Mr. Prot. The Company accrued $75,000 in fees related to this service for the year ended December 31, 2020, in the accompanying Statements of Operations and paid this out at the time of closing of the Business Combination.

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 December 31, 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 June 22, 2018.

On July 16, 2020, the Company issued a promissory note ("Promissory Note") to the Sponsor, pursuant to which the Sponsor agreed to provide a working capital loan to the Company of up to $3.0 million. The Promissory Note will be repaid on the earlier of (i) December 31, 2020 and (ii) the effective date of a Business Combination, without interest. On July 16, 2020, the Company received $1.0 million in loan proceeds pursuant to the Promissory Note which increased the outstanding principal balance of the Promissory Note to $1.0 million. On January 6, 2021, the Company amended the maturity date of the Promissory Note to be repaid on the later of: (i) December 31, 2020 and (ii) the closing date of the Business Combination, which is effective as of December 31, 2020

See the "Business Combination" described in Note 1 above, including the description of the Sponsor Surrender Agreement, pursuant to which the Sponsor agreed to cancel the outstanding principal balance of the Promissory Note of $1.0 million immediately prior to (but conditioned and effective upon) completion of the proposed Merger.

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 did 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.

On March 4, 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. On June 16, 2020, the Company amended the Convertible Note, pursuant to which the maturity date of the note was extended to the earlier of (i) December 31, 2020 and (ii) the effective date of a Business Combination. The Company was provided $750,000 and $750,000 in loan proceeds during the year ended 2020 and 2019, respectively, for an aggregate $1.5 million outstanding balance pursuant to the amended Convertible Note.

In addition, in connection with the Extension, the Company's officers, directors or any of their affiliates or designees have agreed, if the Company does not have the funds necessary to make the Deposit, to make Contributions to the Company as a loan of $0.03 for each Public Share that is not converted in connection with the shareholder votes to approve the Extension. The Contributions will not bear any interest and will be repayable by the Company to the officers, directors or affiliates upon consummation of an initial Business Combination (Note 1). The loans were to be forgiven if the Company was unable to consummate an initial Business Combination except to the extent of any funds held outside of the Trust Account. As of December 31, 2020, no Contributions were outstanding.

See the "Business Combination" described in Note 1 above, including the description of the Sponsor Surrender Agreement, pursuant to which the Sponsor agreed to waive its right to convert the outstanding principal due under the Convertible Note to warrants of the Company in lieu of cash payment upon the consummation of the Merger, but conditioned and effective upon) completion of the proposed Merger.

Note 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) were 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.

Note 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 December 31, 2020 and 2019, there were 15,525,000 Class A common stock issued or outstanding, including 0 and 14,461,820 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 June 22, 2018, the underwriter exercised its over-allotment option in full, hence, these 506,250 shares were no longer subject to forfeiture. At December 31, 2020 and 2019, there were 3,881,250 Class B common stock issued or outstanding.

The Class B common stock would 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 December 31, 2020 and 2019, there are no preferred shares issued or outstanding.

Warrants

At December 31, 2020 and 2019 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.

Note 8. Fair Value Measurements

The following table presents information about the Company's assets that are measured on a recurring basis as of December 31, 2020 and 2019 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)
Assets held in Trust at December 31, 2020:			
Money market fund	$ 109,742,246	$ —	$ —
	$ 109,742,246	**$ —**	**$ —**

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

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 December 31, 2020 and 2019.

Note 9. Income Taxes

The Company's financial statements include total net income (loss) before taxes of approximately $(2.0) million and $2.4 million for the years ended December 31, 2020 and 2019, respectively. The income tax provision consists of the following:

	December 31 2020	December 31 2019
Federal		
Current	$ 248,554	$ 547,749
Deferred	(648,423)	(40,546)
State and Local		
Current	—	—
Deferred	—	—
Change in Valuation allowance	520,318	168,651
Income tax provision (benefit)	$ 120,449	$ 675,854

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:

	2020		2019	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Current tax at U.S. statutory rate	$ (414,970)	21.00%	$ 514,015	21.00%
Nondeductible/nontaxable items	885	-0.04%	2,436	0.10%
State taxes, net of federal benefit	-	0.00%	-	0.00%
State effect of perm items	-	0.00%	-	0.00%
Valuation allowance activity	520,318	-26.33%	168,651	6.89%
Deferred rate change	-	0.00%	-	0.00%
Federal payable true-up	16,652	-0.84%	(9,248)	-0.38%
Other	(2,436)	0.12%	1	0.00%
Total Income Tax Provision/(Benefit)	$ 120,449	-6.10%	$ 675,854	27.61%

The components of deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

	December 31	
	2020	2019
Deferred tax assets:		
Unrealized gain/loss	$ —	$ —
Start-up cost	833,978	313,660
Total deferred tax assets	833,978	313,660
Valuation allowance	(833,978)	(313,660)
Deferred tax liabilities		
Unrealized gain/loss	—	(128,105)
Net Deferred tax assets/(liabilities), net of allowance	$ —	$ (128,105)

As of December 31, 2020 and 2019, 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. 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.

Note 10. Subsequent Events

On January 7, 2021, the Company completed the Business Combination pursuant to the Merger Agreement as described in Note 1. As contemplated by the Merger Agreement and as described in the Company's definitive proxy statement filed with the United States Securities and Exchange Commission (the "SEC") on November 23, 2020 (the "Proxy Statement"), Merger Sub was merged with and into Landsea, with Landsea continuing as the surviving corporation. As a result of the Merger, the registrant owns 100% of the outstanding common stock of Landsea and each share of common stock of Landsea has been cancelled and converted into the right to receive a portion of the consideration payable in connection with the Merger. In connection with the closing of the Business Combination (the "Closing"), the registrant owns, directly and indirectly, 100% of the stock of Landsea and its subsidiaries and the Seller, the sole stockholder of Landsea, as of immediately after the effective time of the Merger, holds a portion of the Common Stock, par value $0.0001 per share, of the registrant (the "Common Stock").

In connection with the Closing, the registrant changed its name from LF Capital Acquisition Corp. to Landsea Homes Corporation.

On January 6, 2021, in connection with its previously announced proposed Business Combination, the Company entered into amendments (collectively, the "Amendments") to that certain Promissory Note, dated July 16, 2020, by and between the Sponsor and the Company and that certain Convertible Promissory Note, dated March 4, 2019, by and between the Sponsor and the Company (collectively, the "Notes"), each as from time to time amended, in order to change the Maturity Date (as defined in the applicable Note) of the Notes to be the later of December 31, 2020 and the Closing Date (Note 5).

DIFFERENCES BETWEEN THE ACCOUNTING POLICIES ADOPTED BY THE COMPANY (HKFRS) AND LANDSEA HOMES (US GAAP)

As described in "Letter from the Board — Waiver from Strict Compliance with Rule 14.68(2)(a)(i) of the Listing Rules", the Company has applied to the Stock Exchange for, and has been granted, a waiver from the requirement to produce an accountants' report on Landsea Homes in accordance with Rule 14.68(2)(a)(i) of the Listing Rules.

Instead, this circular contains a copy of:

(i) the published audited financial information on Landsea Homes for the years ended 31 December 2020, 2021 and 2022 audited by PricewaterhouseCooper in USA and Deloitte USA, respectively, prepared in accordance with US GAAP (together the "**Landsea Homes 3 Years' Accounts**"); and

(ii) the published reviewed financial information on Landsea Homes for the nine months ended 30 September 2023 reviewed by Deloitte USA prepared in accordance with US GAAP ("**Landsea Homes Q3 2023 Accounts**").

The accounting policies adopted in the preparation of the Landsea Homes 3 Years' Accounts and Landsea Homes Q3 2023 Accounts (collectively referred as "**Landsea Homes Published Accounts**") differ in certain respects from the accounting policies presently adopted by the Company. Differences, other than presentation differences, which would have a significant effect on the Landsea Homes Published Accounts, had they been prepared in accordance with the accounting policies presently adopted by the Company rather than in accordance with US GAAP, are set out below in "Landsea Homes' Unaudited Adjusted Financial Information under the Company's Policies", with the following disclosures:

(a) a comparison between Landsea Homes' consolidated balance sheets as extracted from the Landsea Homes Published Accounts, prepared in accordance with US GAAP, and unaudited adjusted consolidated balance sheets had they instead been prepared in accordance with the accounting policies adopted by the Company which are in compliance with HKFRS. The process applied in the preparation of such a comparison is set out in the "Basis of Preparation" and "Reconciliation Process" sections below;

(b) a comparison between Landsea Homes' consolidated statements of operations as extracted from the Landsea Homes Published Accounts, prepared in accordance with US GAAP, and unaudited adjusted consolidated statements of profit or loss had they instead been prepared in accordance with the accounting policies adopted by the Company which are in compliance with HKFRS. The process applied in the preparation of such a comparison is also set out in the Basis of Preparation" and "Reconciliation Process" sections below; and

(c) a discussion of the material financial statement line item differences arising out of the exercise outlined in (a) and (b) above.

The above referenced items are collectively referred to as the "Reconciliation Information".

Basis of Preparation

The Reconciliation Information for each of the three years ended 31 December 2022 and for the nine months ended 30 September 2023, which presents the "Unadjusted Financial Information under US GAAP" of Landsea Homes as if it had been prepared in accordance with the accounting policies presently adopted by the Company which are in compliance with HKFRS.

Reconciliation Process

The Reconciliation Information has been prepared by the Company by comparing and analyzing the differences between the accounting policies adopted by Landsea Homes for the preparation of the Landsea Homes Published Accounts in accordance with US GAAP and the accounting policies adopted by the Company which are in compliance with HKFRS, and quantifying the relevant material financial effects of such differences.

AOGB CPA Limited ("**AOGB**") was engaged by the Company to conduct work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("**HKSAE 3000 (Revised)**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") on the Reconciliation Information for each of the three years ended 31 December 2022 and for the nine months ended 30 September 2023 and to report thereon in the form of an independent limited conclusion to the directors of the Company based on the evidence obtained. The procedures included:

(i) comparing the financial information in the columns "Unadjusted Financial Information under US GAAP" as set out below in the section "Unaudited Adjusted Financial Information under the Company's Policies" with Landsea Homes Published Accounts;

(ii) considering the adjustments made and evidence supporting the adjustments made in arriving at the "Adjusted Financial Information under the Company's Policies" as set out below in the section "Unaudited Adjusted Financial Information under the Company's Policies" which included evaluating the differences between Landsea Homes' accounting policies and the Group's accounting policies; and

(iii) checking the arithmetic accuracy of the computation of the amounts in the columns "Adjusted Financial Information under the Company's Policies".

AOGB's engagement did not involve independent examination of any of the underlying financial information. The work carried out in accordance with HKSAE 3000 (Revised) is different in scope from an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA and consequently, AOGB did not express an audit opinion nor a review conclusion on the Reconciliation Information. AOGB's engagement was intended solely for the use of the Directors in connection with this circular and may not be suitable for another purpose. Based on the work performed, nothing has come to AOGB's attention that causes them to believe:

(i) the financial information in the columns "Unadjusted Financial Information under US GAAP" as set out in the section "Unaudited Adjusted Financial Information under the Company's Policies" are not in agreement with Landsea Homes Published Accounts;

(ii) the adjustments set out in the section "Unaudited Adjusted Financial Information under the Company's Policies" are not prepared, in all material respects, in accordance with the basis described in the section "Basis of Preparation" and "Reconciliation Process" above; and

(iii) the computation of the amounts in the columns "Adjusted Financial Information under the Company's Policies" are not arithmetically accurate.

Landsea Homes' Unaudited Adjusted Financial Information under the Company's Policies

The Landsea Homes 3 Years' Accounts and Landsea Homes Q3 2023 Accounts have been prepared and presented in accordance with US GAAP. There are no material differences between the Landsea Homes Published Accounts, as prepared in accordance with US GAAP, compared to that applying the accounting policies adopted by the Company which are in compliance with HKFRS, other than as set out below:

1. Capitalization of interest

2. Public warrants

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

For the year ended 31 December 2020

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest *(Note (a))*	Adjustment — Public warrants *(Note (b))*	Adjusted Financial Information under the Company's Policies
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	734,608	—	—	734,608
Cost of sales and services	(639,737)	—	—	(639,737)
Gross profit	94,871	—	—	94,871
Other income	95	—	—	95
Selling expenses	(48,100)	—	—	(48,100)
Administrative expenses	(42,598)	—	—	(42,598)
Operating profit	4,268	—	—	4,268
Finance cost	(15)	—	—	(15)
Share of net loss of joint ventures	(16,418)	1,505	—	(14,913)
Loss before income tax	(12,165)	1,505	—	(10,660)
Income tax benefit	3,081	(421)	—	2,660
Loss for the year before non-controlling interests	(9,084)	1,084	—	(8,000)
Non-controlling interests	133	—	—	133
Loss for the year	(8,951)	1,084	—	(7,867)

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

As at 31 December 2020

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Deferred tax assets	13,248	326	—	13,574
Goodwill	20,705	—	—	20,705
Interests in joint ventures	21,342	(1,168)	—	20,174
	55,295	(842)	—	54,453
Current assets				
Properties under development	687,819	—	—	687,819
Other receivables, prepayments and deposits	28,321	—	—	28,321
Cash held in escrow	11,618	—	—	11,618
Amounts due from subsidiaries	2,663	—	—	2,663
Restricted cash	4,270	—	—	4,270
Cash and cash equivalents	105,778	—	—	105,778
Total current assets	840,469	—	—	840,469
Total assets	895,764	(842)	—	894,922
Non-current liability				
Bank loans, secured	(264,809)	—	—	(264,809)
	(264,809)	—	—	(264,809)

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest *(Note (a))*	Adjustment — Public warrants *(Note (b))*	Adjusted Financial Information under the Company's Policies
Current liabilities				
Other payables, deposits received, and accrued charges	(62,869)	—	—	(62,869)
Trade payables	(36,243)	—	—	(36,243)
Amount due to a fellow subsidiary or affiliate	(2,357)	—	—	(2,357)
	(101,469)	—	—	(101,469)
Total liabilities	(366,278)	—	—	(366,278)
Capital and reserves attributable to the shareholders of the Company				
Share capital	(496,174)	—	—	(496,174)
Reserves	(32,011)	842	—	(31,169)
Equity attributable to the owners of the Company	(528,185)	842	—	(527,343)
Non-controlling interests	(1,301)	—	—	(1,301)
Total equity	(529,486)	842	—	(528,644)
Total liabilities and equity	(895,764)	842	—	(894,922)

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES
For the year ended 31 December 2021

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest *(Note (a))*	Adjustment — Public warrants *(Note (b))*	Adjusted Financial Information under the Company's Policies
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	1,023,304	—	—	1,023,304
Cost of sales and services	(840,706)	—	—	(840,706)
Gross profit	182,598	—	—	182,598
Other income	3,918	—	—	3,918
Gain on fair value of warrant liability	2,090	—	911	3,001
Selling expenses	(52,840)	—	—	(52,840)
Administrative expenses	(70,266)	—	—	(70,266)
Operating profit	65,500	—	911	66,411
Finance cost	(32)	—	—	(32)
Share of net profit of joint ventures	1,262	1,114	—	2,376
Profit before income tax	66,730	1,114	911	68,755
Income tax expenses	(13,995)	(316)	—	(14,311)
Profit for the year before non-controlling interests	52,735	798	911	54,444
Non-controlling interests	51	—	—	51
Profit for the year	52,786	798	911	54,495

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

As at 31 December 2021

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Deferred tax assets	7,270	17	—	7,287
Goodwill	24,457	—	—	24,457
Interests in joint ventures	470	(61)	—	409
	32,197	(44)	—	32,153
Current assets				
Properties under development	844,792	—	—	844,792
Other receivables, prepayments and deposits	36,728	—	—	36,728
Cash held in escrow	4,079	—	—	4,079
Amounts due from subsidiaries	4,465	—	—	4,465
Restricted cash	443	—	—	443
Cash and cash equivalents	342,810	—	—	342,810
Total current assets	1,233,317	—	—	1,233,317
Total assets	1,265,514	(44)	—	1,265,470
Non-current liabilities				
Bank loans, secured	(461,117)	—	—	(461,117)
Warrant liability	(9,185)	—	(2,347)	(11,532)
	(470,302)	—	(2,347)	(472,649)

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current liabilities				
Other payables, deposits received, and accrued charges	(97,724)	—	—	(97,724)
Trade payables	(73,734)	—	—	(73,734)
Amount due to a fellow subsidiary or affiliate	(2,357)	—	—	(2,357)
	(173,815)	—	—	(173,815)
Total liabilities	(644,117)	—	(2,347)	(646,464)
Capital and reserves attributable to the shareholders of the Company				
Share capital	(535,350)	—	3,259	(532,091)
Reserves	(84,797)	44	(912)	(85,665)
Equity attributable to the owners of the Company	(620,147)	44	2,347	(617,756)
Non-controlling interests	(1,250)	—	—	(1,250)
Total equity	(621,397)	44	2,347	(619,006)
Total liabilities and equity	(1,265,514)	44	—	(1,265,470)

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

For the year ended 31 December 2022

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	1,446,449	—	—	1,446,449
Cost of sales and services	(1,159,525)	—	—	(1,159,525)
Gross profit	286,924	—	—	286,924
Other expense	(63)	—	—	(63)
Loss on fair value of warrant liability	(7,315)	—	873	(6,442)
Selling expenses	(89,305)	—	—	(89,305)
Administrative expenses	(89,325)	—	—	(89,325)
Operating profit	100,916	—	873	101,789
Share of net profit of joint ventures	149	61	—	210
Profit before income tax	101,065	61	873	101,999
Income tax expenses	(25,400)	(17)	—	(25,417)
Profit for the year before non-controlling interests	75,665	44	873	76,582
Non-controlling interests	(2,114)	—	—	(2,114)
Profit for the year	73,551	44	873	74,468

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

As at 31 December 2022

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Deferred tax assets	13,569	—	—	13,569
Goodwill	68,639	—	—	68,639
Interests in joint ventures	41	—	—	41
	82,249	—	—	82,249
Current assets				
Properties under development	1,093,369	—	—	1,093,369
Other receivables, prepayments and deposits	120,399	—	—	120,399
Cash held in escrow	17,101	—	—	17,101
Amount due from subsidiaries	3,744	—	—	3,744
Cash and cash equivalents	123,634	—	—	123,634
Total current assets	1,358,247	—	—	1,358,247
Total assets	1,440,496	—	—	1,440,496
Non-current liabilities				
Bank loans, secured	(505,422)	—	—	(505,422)
Warrant liability	—	—	(1,475)	(1,475)
	(505,422)	—	(1,475)	(506,897)

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current liabilities				
Other payables, deposits received, and accrued charges	(149,426)	—	—	(149,426)
Trade payables	(74,445)	—	—	(74,445)
Amount due to a fellow subsidiary or affiliate	(884)	—	—	(884)
	(224,755)	—	—	(224,755)
Total liabilities	(730,177)	—	(1,475)	(731,652)
Capital and reserves attributable to the shareholders of the Company				
Share capital	(497,602)	—	3,259	(494,343)
Reserves	(158,348)	—	(1,784)	(160,132)
Equity attributable to the owners of the Company	(655,950)	—	1,475	(654,475)
Non-controlling interests	(54,369)	—	—	(54,369)
Total equity	(710,319)	—	1,475	(708,844)
Total liabilities and equity	(1,440,496)	—	—	(1,440,496)

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

For the nine months ended 30 September 2023

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Revenue	812,332	—	—	812,332
Cost of sales and services	(663,412)	—	—	(663,412)
Gross profit	148,920	—	—	148,920
Other income	2,770	—	—	2,770
Loss on fair value of warrant liability	—	—	(2,302)	(2,302)
Selling expenses	(51,672)	—	—	(51,672)
Administrative expenses	(74,223)	—	—	(74,223)
Operating profit	25,795	—	(2,302)	23,493
Income tax expenses	(6,323)	—	—	(6,323)
Profit for the period before non-controlling interests	19,472	—	(2,302)	17,170
Non-controlling interests	(2,711)	—	—	(2,711)
Profit for the period	16,761	—	(2,302)	14,459

UNAUDITED ADJUSTED FINANCIAL INFORMATION UNDER THE COMPANY'S POLICIES

As at 30 September 2023

	Unadjusted Financial Information under US GAAP	Adjustment — Capitalization of interest	Adjustment — Public warrants	Adjusted Financial Information under the Company's Policies
		(Note (a))	*(Note (b))*	
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Deferred tax assets	13,579	—	—	13,579
Goodwill	68,639	—	—	68,639
Interests in joint ventures	41	—	—	41
	82,259	—	—	82,259
Current assets				
Properties under development	1,155,661	—	—	1,155,661
Other receivables, prepayments and deposits	90,488	—	—	90,488
Cash held in escrow	10,956	—	—	10,956
Amounts due from subsidiaries	4,232	—	—	4,232
Cash and cash equivalents	133,491	—	—	133,491
Total current assets	1,394,828	—	—	1,394,828
Total assets	1,477,087	—	—	1,477,087
Non-current liabilities				
Bank loans, secured	(552,393)	—	—	(552,393)
Warrant liability	—	—	(3,777)	(3,777)
	(552,393)	—	(3,777)	(556,170)

	Unadjusted Financial Information under US GAAP *US$'000*	Adjustment — Capitalization of interest *(Note (a))* *US$'000*	Adjustment — Public warrants *(Note (b))* *US$'000*	Adjusted Financial Information under the Company's Policies *US$'000*
Current liabilities				
Other payables, deposits received, and accrued charges	(150,079)	—	—	(150,079)
Trade payables	(72,287)	—	—	(72,287)
Amount due to a fellow subsidiary or affiliate	(881)	—	—	(881)
	(223,247)	—	—	(223,247)
Total liabilities	(775,640)	—	(3,777)	(779,417)
Capital and reserves attributable to the shareholders of the Company				
Share capital	(477,841)	—	3,259	(474,582)
Reserves	(175,109)	—	518	(174,591)
Equity attributable to the owners of the Company	(652,950)	—	3,777	(649,173)
Non-controlling interests	(48,497)	—	—	(48,497)
Total equity	(701,447)	—	3,777	(697,670)
Total liabilities and equity	(1,477,087)	—	—	(1,477,087)

Note a: Capitalization of interest

Under 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.

Under HKFRS, interest borne by Landsea Homes for a JV is not allowed to be capitalized. Reversal of the capitalized interest is account in the financial statements. When the inventories of the JV are sold, the lower cost of investment in JV under HKFRS and result in a higher investment income derived from the JV on the financial statements of Landsea Homes.

Note b: Public warrants

Under US GAAP, public warrants issued by Landsea Homes were recognized as equity and recorded at initial fair value on the date of issuance and not subsequently re-measured.

Under HKFRS, public warrants issued by Landsea Homes were recognized as liability and recorded at fair value. Valuation is subject to re-measurement at each balance sheet date. Fair value adjustment at each of the financial period are required to be recognized as profit or loss for the period.

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.

Set out below is the management discussion and analysis on the Remaining Group for the year ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023. Upon completion of the Possible Disposal, Landsea Homes will no longer remain as a subsidiary of the Company.

For the purpose of this circular and for illustration purpose only, the management discussion and analysis of the Remaining Group below is made with the exclusion of Landsea Homes.

There will be no change to the principal business of the Remaining Group as a result of the Possible Disposal. Following the Possible Disposal the Remaining Group will continue to carry out its existing businesses. The management discussion and analysis of the Remaining Group for each of the years ended 31 December 2020 ("**FY2020**"), 31 December 2021 ("**FY2021**") and 31 December 2022 ("**FY2022**") and for the six months ended 30 June 2023 ("**6M2023**") respectively are set out below.

BUSINESS AND FINANCIAL REVIEW

Segmental information

The Remaining Group is principally engaged in (i) property development and sales in USA; (ii) property development and sales in the PRC; (iii) management services; and (iv) office property investment. A summary of the revenues and operating results of each business segment of the Remaining Group for FY2020, FY2021, FY2022 and 6M2023 are as follows:

FY2020	**Property development and sales in USA**	**Property development and sales in the PRC**	**Management services**	**Office property investment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	3,209,379	685,880	28,017	3,923,276
Segment operating results	—	1,226,553	78,753	233,374	1,323,423

For FY2020, revenue of the Remaining Group was approximately RMB3,923.28 million, which was mainly derived from property development and sales in the PRC. The operating profit of the Remaining Group was approximately RMB1,323.42 million.

FY2021	**Property development and sales in USA**	**Property development and sales in PRC**	**Management services**	**Office property investment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	809,187	751,752	4,067	1,565,006
Segment operating results	—	(131,879)	37,788	(26,506)	(516,315)

For FY2021, revenue of the Remaining Group was approximately RMB1,565.01 million, which was mainly derived from property development and sales in PRC as well as management services. The operating loss of the Remaining Group was approximately RMB516.31 million.

FY2022	Property development and sales in USA	Property development and sales in PRC	Management services	Office property investment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	3,888,601	352,981	5,243	4,246,825
Segment operating results	—	(1,403,663)	(344,488)	18,148	(2,015,122)

For FY2022, revenue of the Remaining Group was approximately RMB4,246.83 million, which was mainly derived from property development and sales in PRC. The operating loss of the Remaining Group was approximately RMB2,015.12 million.

6M2023	Property development and sales in USA	Property development and sales in PRC	Management services	Office property investment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	15,085	218,156	2,050	235,291
Segment operating results	—	138,470	11,822	1,694	151,986

For 6M2023, revenue of the Remaining Group was approximately RMB235.29 million, which was mainly derived from management services in PRC. The operating profit of the Remaining Group was approximately RMB151.99 million.

Property development and sales in the PRC

During FY2020, the Remaining Group's revenue from property development and sales in the PRC amounted to approximately RMB3,209.38 million. Aggregate gross floor area sold for FY2020 was 226,347 square meters and average selling price was RMB14,179 per square meter.

During FY2021, the Remaining Group's revenue from property development and sales in the PRC amounted to approximately RMB809.19 million. Aggregate gross floor area sold for FY2021 was 34,429 square meters and average selling price was RMB23,503 per square meter.

During FY2022, the Remaining Group's revenue from property development and sales in the PRC amounted to approximately RMB3,888.60 million. Aggregate gross floor area sold for FY2022 was 187,901 square meters and average selling price was RMB20,695 per square meter.

During 6M2023, the Remaining Group's revenue from property development and sales in the PRC amounted to approximately RMB15.09 million. Aggregate gross floor area sold for 6M2023 was 431 square meters and average selling price was RMB35,010 per square meter.

Management services

The Remaining Group provides management services to its customers at fixed or variable amount. If the consideration is variable, revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The Remaining Group recognizes revenue from management services over period of time where the customer simultaneously receives and consumes the benefits provided by the Remaining Group or the Remaining Group's performance does not create an asset with an alternative use to the Remaining Group and the Remaining Group has an enforceable right to payment for performance completed to date. Otherwise revenue was recognized at a point in time. For revenue recognized over period of time, the Remaining Group measures the progress towards complete satisfaction of performance obligation on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract or on basis of direct measurements of the value transferred to the customer. Where the outcome of a contract cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provision is made for foreseeable losses as soon as they are anticipated by the Remaining Group. During FY2020, FY2021, FY2022 and 6M2023, the revenue from property management was approximately RMB685.88 million, RMB751.75 million, RMB352.98 million and RMB218.16 million, respectively.

Office property investment

During FY2020, FY2021, FY2022 and 6M2023, the revenue from office property investment was approximately RMB28.02 million, RMB4.07 million, RMB5.24 million and RMB2.05 million, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, the Remaining Group had total assets of RMB18,862.38 million, net current assets of RMB1,272.33 million and equity attributable to Shareholders of RMB2,045.82 million.

As at 31 December 2020, current assets and current liabilities of the Remaining Group were RMB12,093.54 million and RMB10,821.21 million respectively. Accordingly, the Remaining Group's current ratio was 1.1.

As at 31 December 2021, the Remaining Group had total assets of RMB19,815.13 million, net current liabilities of RMB1,422.74 million and equity attributable to Shareholders of RMB1,634.70 million.

As at 31 December 2021, current assets and current liabilities of the Remaining Group were RMB14,217.05 million and RMB15,639.78 million respectively. Accordingly, the Remaining Group's current ratio was -0.9.

As at 31 December 2022, the Remaining Group had total assets of RMB11,054.34 million, net current liabilities of RMB3,606.45 million and negative equity attributable to Shareholders of RMB1,143.43 million.

As at 31 December 2022, current assets and current liabilities of the Remaining Group were RMB5,893.66 million and RMB9,500.11 million respectively. Accordingly, the Remaining Group's current ratio was –0.6.

As at 30 June 2023, the Remaining Group had total assets of RMB11,617.82 million, net current liabilities of RMB3,227.09 million and negative equity attributable to Shareholders of RMB718.77 million.

As at 30 June 2023, current assets and current liabilities of the Remaining Group were RMB6,209.78 million and RMB9,436.87 million respectively. Accordingly, the Remaining Group's current ratio was –0.7.

GEARING RATIO

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the gearing ratio of the Remaining Group were 38%, 227%, –296% and –423%, respectively. The gearing ratio was measured by net debt (aggregated borrowings net of bank balances and cash) over the equity attributable to owners of the Company.

CAPITAL COMMITMENTS

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Remaining Group had the following capital commitments:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of land use right	—	—	542,500	542,500
Development expenditure	66,689	175,542	220,302	218,124
Total	66,689	175,542	762,802	760,624

CONTINGENT LIABILITIES

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Remaining Group had the following contingent liabilities.

Guarantee	As at 31 December 2020	2021	2022	As at 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantee in respect of mortgage facilities for certain purchasers[1]	1,523,236	1,254,314	993,914	908,081
Guarantee in respect of related parties' borrowings[2]	148,400	118,400	102,400	85,300
Total	1,671,636	1,372,714	1,096,314	993,381

Notes:

1. The Group 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. 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.

2. The Group provided guarantee to Guangzhou Langxiu Enterprise Management Consulting Co., Ltd., a 33% joint venture of the Group, for its bank borrowing.

CAPITAL STRUCTURE

For FY2020, FY2021, FY2022 and 6M2023, the Remaining Group's objectives when managing capital are to safeguard the Remaining Group's ability to continue as a going concern in order to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Remaining Group may raise new debts, adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debts.

The Remaining Group's assets portfolio was mainly financed by its shareholders' funds and bank and other borrowings:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Shareholders' funds of the Remaining Group	38,702	38,702	38,702	38,702
Bank and other borrowings of the Remaining Group	5,214,184	5,550,478	3,779,443	3,676,854
Bank and other borrowings of the Remaining Group denominated in:				
RMB	5,252,886	5,589,180	3,818,145	3,715,556

Based on the agreed scheduled repayment dates in the loan agreements and ignoring the effect of any repayment on demand clause, the Remaining Group's bank and other borrowings were repayable:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within the first year	858,772	3,319,650	1,488,901	991,109
Within the second year	2,559,153	179,939	1,431,390	956,818
Within the third to fifth years	997,018	1,327,777	806,132	1,288,294
After the fifth year	799,241	723,112	53,020	440,633
Interest rates of bank and other borrowings per annum	0.10% to 11.70%	0.10% to 12.30%	0.10% to 10.75%	0.10% to 10.75%

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Remaining Group had the fixed interest rate of the bank and other borrowings of approximately RMB3,674.8 million, RMB3,850.6 million, RMB2,632.3 million and RMB2,516.2 million, respectively.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, no financial instruments for hedging purposes were used and no foreign currency net investments were hedged by currency borrowings and other hedging instruments.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

FY2020

1. On 8 January 2020, Landsea Homes of Arizona, LLC (the "**Landsea Arizona**") and Landsea Homes, wholly-owned subsidiaries of the Company, Longhorn Wyoming, LLC, ZKL, LLC and GGW Funding, LLC (collectively the "**Sellers**"), Jacob S. Walker, Jeffrey M. Garrett and F. Michael Geddes and GWH Holdings, LLC ("**GWH**") entered into the membership interest purchase agreement, pursuant to which Landsea Arizona conditionally agreed to purchase, and the Sellers conditionally agreed to sell all of the issued and outstanding membership interests of GWH. Upon completion of the acquisition on 15 January 2020, GWH and its subsidiaries became wholly-owned subsidiaries of the Company.

2. On 31 August 2020 (US time), Landsea Homes and Landsea Holdings Corporation, both are indirect wholly-owned subsidiaries of the Company, entered into the conditional merger agreement (the "**Merger Agreement**") with LF Capital Acquisition Corp. ("**LF Capital**"), a special purpose acquisition company in the United States, and LFCA Merger Sub, Inc. ("**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 (the "**Merger**"). Merger Sub was a wholly-owned subsidiary of LF Capital. Following the Merger, Landsea Homes became a wholly-owned subsidiary of LF Capital, the Class A common stock in LF Capital, public warrants and units of which are listed on NASDAQ. The Merger Agreement was consummated completed on 7 January 2021.

3. On 18 December 2020, 南京朗銘地產集團有限公司 (Nanjing Langming Properties 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**") entered into the equity transfer agreement, 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 should pay RMB393,520,016.93. Completion took place on 24 December 2020. Upon completion of the transfer, Nanjing Xinhuisheng was owned as to 74% by Nanjing Langming and as to 26% by Xi'an Jiapeng. Nanjing Xinhuisheng continues to be a subsidiary of the Group and its financial results continues to be consolidated into the consolidated financial statements of the Company.

4. On 29 December 2020, 中國信息產業有限公司 (China Information Industry Limited*) (“**China Information**”), a wholly-owned subsidiary of the Company, as vendor, 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**”), as purchaser and 曙光信息產業(深圳)有限公司 (Dawning Information Industry (Shenzhen) Limited*) (“**Dawning Information**”) entered into the equity transfer agreement pursuant to which China Information agreed to sell and Shenzhen Kofa agreed to purchase 100% equity interest in Dawning Information at the initial consideration of RMB500,000,000 (subject to adjustment). Completion took place on 29 December 2020.

FY2021

1. Pursuant to the terms of the cooperation framework agreement (the “**Cooperation Framework Agreement**”) entered into between Nanjing Langming Real Estate Group Co., Ltd.* (南京朗銘地產集團有限公司) (“**Nanjing Langming**”), Xi’an Langshiming Real Estate Development Co., Ltd.* (西安朗詩銘房地產開發有限公司) (“**Xi’an Langshiming**”), which are wholly-owned subsidiaries of the Company, Xi’an Jiapeng Real Estate Development Co., Ltd.* (西安嘉鵬房地產開發有限公司) (the “**Project Company**”) and Nanjing Luode Dening Real Estate Investment Partnership (Limited Partnership)* (南京洛德德寧房地產投資合夥企業) (“**Dening Fund**”) on 21 February 2019, and subject to certain conditions, Dening Fund agreed to invest in the property development project on 陝西省西安市未央區西戶鐵路以東、昆明路以北,宗地編號FD2-14-32 (land parcel No. FD2-14-32 located in the east of the Xihu Railway and the north of Kunming Road in Weiyang District, Xi’an City, Shaanxi Province*) (the “**Subject Project**”) held by the Project Company through the acquisition of the 70% equity interest in the Project Company (the “**Sale Interest**”) and the provision of the shareholder’s loan provided by Dening Fund to the Project Company (the “**Dening Fund Shareholder’s Loan**”). Pursuant to the terms of the Cooperation Framework Agreement, Dening Fund could request to exit the Subject Project and Xi’an Langshiming and/or its designated third party should agree to buy back the total investment amount of not exceeding RMB140,000,000 including the provision of the Dening Fund Shareholder’s Loan of not exceeding RMB126,000,000 and the consideration for the Sale Interest of RMB14,000,000 (the “**Dening Fund Investment**”) for a maximum amount of RMB280,000,000 pursuant to the agreed terms upon the earlier occurrence of either (i) the Subject Project sales rate reaches 95% and all sales proceeds have been received; or (ii) 22 months from the completion of the settlement of Dening Fund Investment (the “**Buy Back**”), for a maximum amount of RMB280,000,000. On 8 February 2021, both conditions for the Buy Back had been fulfilled. Accordingly, Shanghai Langyu Commercial Management Limited* (上海朗毓商業管理有限公司) (“**Shanghai Langyu**”), Dening Fund and the Project Company entered into the equity transfer agreement, pursuant to which Dening Fund agreed to transfer and Shanghai Langyu agreed to buy back the Sale Interest at RMB42,000,000. There was no outstanding balance of Dening Fund Shareholder’s Loan as at the date of the Buy Back. Upon completion of the transfer of the Sale Interest on 10 March 2021, the Project Company become an indirect wholly-owned subsidiary of the Company and its financial results has been consolidated into the financial statements of the Company since then.

2. On 27 April 2021, Landsea Homes US Corporation and Landsea Homes, Mr. Keith Buescher, Mr. Scott Buescher, Ms. Susan Girard, Ms. Linda Swain, and Mr. Tom Buescher (collectively, the "**Sellers**"), and Mercedes Premier Homes, LLC entered into the membership interest purchase agreement (the "**Agreement**"), pursuant to which Landsea Homes US Corporation conditionally agreed to purchase, and the Sellers conditionally agreed to sell the entire membership interests of Mercedes Premier Homes, LLC. Upon closing of the acquisition of the entire membership interests under the Agreement on 4 May 2021, Mercedes Premier Homes, LLC become a wholly-owned subsidiary of Landsea Homes US Corporation and its results has been consolidated by the Group since then.

FY2022

1. THE ACQUISITION OF 100% INTEREST IN HANOVER FAMILY BUILDERS, LLC

On 18 January 2022 (United States Pacific Standard Time), Landsea Homes of Florida LLC ("**Landsea Homes Florida**") and Landsea Homes Corporations, which are non-wholly owned subsidiaries of the Company, entered into the membership interest agreement with (among others) SAM Building Partners, LLC and Edge Creek Ventures, LLC as sellers (the "**US Sellers**"), pursuant to which Landsea Homes Florida agreed to purchase, and the US Sellers agreed to sell, all the issued equity interests of Hanover Family Builders, LLC ("**Hanover Family**"), a limited liability company incorporated in the State of Florida of the USA whose operations primarily consist of land acquisition and development, construction, and the sale of single family residential units in Central Florida and Orlando market. The acquisition enables the Company to strategically expand its brand into in Central Florida and Orlando markets, and strengthen its market share in competitively priced homes in the USA. The base purchase price of the transaction was US$179,241,431. As at the Latest Practicable Date, the equity transfer has not been completed.

2. THE CREDIT AGREEMENT

On 12 May 2022 (United States Eastern Standard Time), Landsea Holdings Corporation, an indirect wholly-owned subsidiary of the Company as the borrower (the "**Borrower**"), and 1103849 B.C. LTD as the lender (the "**Lender**") entered into the credit agreement (the "**Credit Agreement**"), pursuant to which, the Lender conditionally agreed to provide the loan in a principal amount of US$45,000,000 (the "**Loan**") to the Borrower. If the Facility Termination Date (as defined in the Credit Agreement) shall have been extended as provided in the Credit Agreement, and the Lender shall have provided the requisite written notice to the Borrower, of the Lender's election to exercise the Lender Stock Payment Election Right (as defined in the Credit Agreement), the Borrower shall repay the outstanding principal of the Loan with common shares of Landsea Homes 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 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 the Borrower's beneficial ownership in LSEA Stock to drop below 50% of the issued and outstanding shares of LSEA Stock.

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, the Lender may elect by providing written notice to the Borrower 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 4,838,710 shares of LSEA Stock.

The exercise of the Lender Stock Payment Election Right by the Lender for the LSEA Stock is at the discretion of the Lender, and was therefore treated as if it had been exercised pursuant to Rule 14.74 of the Listing Rules. Therefore, 4,838,710 shares of LSEA Stock was treated as if they had been disposed of by the Borrower.

3. THE DISPOSAL 鑫貝盛投資管理有限公司 (NANJING XINBEISHENG INVESTMENT MANAGEMENT LIMITED*)

On 17 May 2022, 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 the vendor and 南京玖富星海置業有限公司 (Nanjing Jiufu Xinghai Real Estate Co., Ltd.*) as the purchaser entered into the equity transfer agreement, pursuant to which Nanjing Langming Properties Group Limited agreed to sell, and Nanjing Jiufu Xinghai Real Estate Co., Ltd. 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*), a company established under the laws of the PRC with limited liability and is principally engaged in enterprise management consulting and property management, for the consideration of RMB85,500,000. As at the Latest Practicable Date, the equity transfer has not been completed.

4. THE ACQUISITIONS OF THE REMAINING 45% EQUITY INTEREST IN 蘇州朗坤置業有限公司 (SUZHOU LANGKUN PROPERTIES COMPANY LIMITED*)

On 31 May 2022, 上海朗毓商業管理有限公司 (Shanghai Langyu Commercial Management Limited*), an indirect wholly-owned subsidiary of the Company as the purchaser, 江蘇國泰華鼎投資有限公司 (Jiangsu Guotai Huading Investment Company Limited*) as vendor, and 蘇州朗坤置業有限公司 (Suzhou Langkun Properties Company Limited*), a company established under the laws of the PRC with limited liability and is principally engaged in property development, entered into an equity transfer agreement, pursuant to which, Shanghai Langyu Commercial Management Limited agreed to purchase, and Jiangsu Guotai Huading Investment Company Limited agreed to sell, 22.5% of the entire equity interest in Suzhou Langkun Properties Company Limited, for a consideration of RMB41,377,657.50.

Shanghai Langyu Commercial Management Limited also succeeded in the bidding for 22.5% equity interest in Suzhou Langkun Properties Company Limited through Shanghai United Assets and Equity Exchange. On 31 May 2022, the Purchaser and 江蘇國泰紫金科技發展有限公司 (Jiangsu Guotai Zijin Technology Development Company Limited*) ("**Jiangsu Zijin**") as vendor entered into an equity transfer agreement, pursuant to which, Shanghai Langyu Commercial Management Limited agreed to purchase, and Jiangsu Zijin agreed to sell

22.5% of the entire equity interest in Suzhou Langkun Properties Company Limited, for a consideration of RMB41,377,657.50. The Company considers the acquisition represents the Company's acquisition of full control over Suzhou Langkun Properties Company Limited, which will enable the Company to make more effective use of the surplus cash in Suzhou Langkun Properties Company Limited. Upon completion of the acquisitions on 8 June 2022, Suzhou Langkun Properties Company Limited became an indirect wholly-owned subsidiary of the Company.

5. THE DISPOSAL OF 10.7% INTEREST IN LANDSEA HOMES

On 31 May 2022 (United States Eastern Daylight Time), Landsea Holdings Corporation, an indirect wholly-owned subsidiary of the Company, as the vendor and Green Investment Alpha Limited, as the purchaser entered into the stock purchase agreement (the "**Stock Purchase Agreement**"), pursuant to which, Landsea Holdings Corporation agreed to sell, and Green Investment Alpha Limited agreed to purchase, approximately 10.7% of the issued and outstanding shares of the common shares of Landsea Homes (the "**Sale Shares**") at a sale price of US$9.30 per share for a total consideration of US$45,000,000. Upon completion of the disposal on 31 May 2022, Landsea Homes remains to be a subsidiary of the Company. In connection with the Stock Purchase Agreement, on 31 May 2022 (United States Eastern Daylight Time), Green Investment Alpha Limited and Landsea Holdings Corporation entered into the put option agreement (the "**Put Option Agreement**"), pursuant to which Green Investment Alpha Limited shall, for each of the First Put Exercise Period and the Second Put Exercise Period (each as defined in the Put Option Agreement), have the right, but not the obligation, to cause Landsea Holdings Corporation to purchase all or a portion of the Sale Shares.

6. SHARE REPURCHASE BY LANDSEA HOMES (THE "SHARE REPURCHASE")

On 1 June 2022 (United States Eastern Daylight Time), Landsea Holdings Corporation ("**LHC**"), an indirect wholly-owned subsidiary of the Company, and Landsea Homes entered into the share repurchase agreement, pursuant to which LHC agreed to sell, and Landsea Homes agreed to repurchase shares (the "**Repurchase Shares**"), representing approximately 9.7% of the issued and outstanding shares of the common shares of Landsea Homes at a repurchase price of US$6.82 per share for a total consideration of approximately US$30 million. The shareholding of LHC in Landsea Homes decreased from approximately 61.9% to approximately 57.8% immediately after completion of the Share Repurchase and cancellation of the Repurchase Shares.

7. THE DISPOSAL OF 50% EQUITY INTEREST IN A JOINT VENTURE

On 25 August 2022, 上海朗昆企業管理有限公司 (Shanghai Langkun Business Management Co., Ltd.), an indirect wholly-owned subsidiary of the Company as the vendor, entered into the sale and purchase agreement with (among others) 北京融匯嘉智投資管理中心(有限合夥) (Beijing Ronghui Jiazhi Investment Management Center (Limited Partnership)*) and 廈門嘉晟融懋管理諮詢有限公司 (Xiamen Jiasheng Rongmao Management Consulting Co. Ltd.*) (collective, the "**Purchasers**"), pursuant to which the Purchasers conditionally agreed to purchase and Shanghai Langkun Business Management Co., Ltd. conditionally agreed to sell 50% of the entire equity interest in 上海融懋商業管理有限公司 (Shanghai Rongmao Commercial Management Co., Ltd.*), with an aggregate initial consideration of RMB137,575,942.05. Upon completion of the disposal on 25 August 2022, the Company ceased to have any interest in the joint venture.

8. THE DISPOSAL OF 100% INTEREST IN 上海朗松實業有限公司 (SHANGHAI LANGSONG ENTERPRISES COMPANY LIMITED*)

On 24 October 2022, 上海朗緒企業管理諮詢有限公司 (Shanghai Langxu Enterprise Management Consultancy Company), an indirect wholly-owned subsidiary of the Company as the vendor, 南京朗銘地產集團有限公司 (Nanjing Langming Property Group Limited) and 上海朗青投資管理有限公司 (Shanghai Langqing Investment Management Limited), indirect wholly-owned subsidiaries of the Company as the vendor guarantors and LAO VI CN Company VI Pte. Ltd. as the purchaser entered into the equity acquisition agreement, pursuant to which Shanghai Langxu Enterprise Management Consultancy Company agreed to sell, and LAO VI CN Company VI Pte. Ltd. agreed to purchase, 100% equity interest in 上海朗松實業有限公司 (Shanghai Langsong Enterprises Company Limited*) at the initial consideration of RMB102,489,655.35, subject to adjustments. Upon completion of the disposal on 24 October 2022, the target company ceased to be a subsidiary of the Company.

6M2023

1. DISPOSAL OF CERTAIN LISTED SECURITIES IN LANDSEA HOMES

On 12 June 2023 (New York time), LHC and B. Riley Securities, Inc. ("**B. Riley Securities**") (as representative of the underwriters) entered into an underwriting agreement (the "**Underwriting Agreement**"), pursuant to which, subject to the terms and conditions of the Underwriting Agreement, LHC agreed to sell, and B. Riley Securities and Wedbush Securities Inc. as the underwriters (the "**Underwriters**") agreed to purchase, an aggregate of 2,956,522 shares of the LSEA Stock, at a public offering price of US$7.5 for an aggregate consideration of US$22,173,915. In addition, LHC agreed to sell additional 443,478 shares of LSEA Stock (the "**Option Shares**") to the Underwriters and the Underwriters, subject to the terms and conditions of the Underwriting Agreement, have the right to purchase all or a portion of the Option Shares, at the public offering price of US$7.5. The option may be exercised by the Underwriters any time and from time to time on or before the 30th day following the date of the Underwriting Agreement. On 15 June 2023, 2,513,044 shares of

LSEA Stock were sold to the public and 443,478 shares of LSEA Stock were repurchased by Landsea Homes. Completion of the disposal of the Option Shares took place on 21 June 2023 (New York Time). 443,478 shares of LSEA Stock have been sold to the public.

FOREIGN CURRENCY MANAGEMENT

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Remaining Group's cash and cash equivalents and restricted cash were mainly denominated in Renminbi, Hong Kong dollar and United States dollar. The functional currency of the Remaining Group's subsidiaries in the United States is United States dollar while that of the subsidiaries in Hong Kong is Hong Kong dollar, and that of the subsidiaries in the PRC is Renminbi. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the corresponding exchange rate changes in the internal funds transfer of the Remaining Group resulted in book exchange losses of approximately RMB103 million, exchange losses of approximately RMB76 million, exchange gains of approximately RMB13 million and exchange gains of approximately RMB38 million, respectively. As at 31 December 2020, 2021 and 2022 and 30 June 2023, the assets of the Remaining Group denominated in US$ was approximately 23 times, 30 times, 11 times and 14 times, respectively of the liabilities denominated in US$. As foreign currency assets are in line with the foreign currency liabilities, no financial instrument is required for hedging purposes.

EMPLOYMENT AND REMUNERATION POLICY

The employees' remuneration is based on the employees' skill, knowledge and involvement in the Company's affairs and is determined by reference to the Company's performance, as well as remuneration benchmark in the industry and the prevailing market conditions.

The Remaining Group had approximately 1,361, 1,507, 1,201 and 1,150 employees as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the staff costs (including directors' emoluments) of the Remaining Group amounted to approximately RMB299.0 million, RMB320.0 million, RMB183.0 million and RMB65.0 million respectively.

PLEDGE ON ASSETS

As at 31 December 2020, 2021 and 2022 and 30 June 2023, bank borrowings of the Remaining Group were secured by one or a combination of the following items: restricted cash, property, plant and equipment, properties under development, investment properties, property held for sales, leasehold land of delivered properties, equity interests in certain subsidiaries of the Remaining Group and guarantee provided by the controlling shareholders of the Company. Senior notes were guaranteed by certain subsidiaries of the Company. EB-5 loans are guaranteed by a subsidiary.

The charged assets amounted to approximately RMB635.0 million, RMB1,681.0 million, RMB1,901.0 million and RMB1,131.0 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

The bank borrowings amounted to approximately RMB397.0 million, RMB5,239.0 million, RMB2,202.0 million and RMB2,254.0 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

OUTLOOK AND FUTURE PLAN

The Remaining Group will keep a close watch on the development and transformation trend of the industry, continue to implement strategic transformation for product differentiation, asset-light model transformation and revenue diversification and make continuous effort to minimise the operating cost, with an aim to improve the value and market competitiveness of the Remaining Group.

The Remaining Group will continue to optimise its capital structure and business portfolio in order to continuously improve its financial position. The Remaining Group will strive to capture investment opportunities prudently and optimise the capital structure and business portfolio in a bid to maximise shareholders' interests.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. Introduction

The following is the unaudited pro forma financial information of Landsea Green Management Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") after taking the account of the proposed disposal of Landsea Homes Corporation ("**Target Company**") (the "**Remaining Group**"), comprising the unaudited pro forma condensed consolidated balance sheet as at 30 June 2023 and the unaudited pro forma condensed consolidated statement of profit or loss, and the unaudited pro forma condensed consolidated statement of cash flows for the six months ended 30 June 2023 and related notes (collectively, the "**Unaudited Pro Forma Financial Information**").

The Unaudited Pro Forma Financial Information is prepared by the directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), for the purpose of illustrating the effect of the possible disposal of 4,800,000 shares, of the Target Company (the "**Proposed Disposal**") as described in the section headed "Letter from the Board" in this circular.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the financial position of the Remaining Group as at 30 June 2023 as if the Proposed Disposal had been completed on 30 June 2023; and (ii) the statement of profit or loss of the Remaining Group, the statement of cash flows of the Remaining Group for the six months ended 30 June 2023 as if the Proposed Disposal had been completed on 1 January 2023.

The Unaudited Pro Forma Financial Information of the Remaining Group is based upon the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2023, which has been derived from the Company's published interim report for the period ended, after taking into account pro forma adjustments as summarised in the accompanying notes that are, factually supportable and directly attributable to the Proposed Disposal.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and is based on certain assumptions, estimates and currently available information. Because of its hypothetical nature, it may not give a true picture of the financial results, cash flows and financial position of the Remaining Group had the Proposed Disposal been completed as at the specified dates or any other dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in the published interim report of the Company for the six months ended 30 June 2023 and other financial information included elsewhere in this circular.

2. Unaudited Pro Forma Condensed Consolidated Balance Sheet of the Remaining Group at 30 June 2023

	The Group as at 30 June 2023	Pro forma adjustments				The Remaining Group as at 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b(i))*	*(Note b(ii))*	*(Note c)*	*(Note d)*	
Non-current assets						
Investment properties	332,500	—	—	—	—	332,500
Property, plant and equipment	264,434	(79,257)	—	—	—	185,177
Right-of-use assets	107,345	(99,471)	—			7,874
Interests in associates	1,161,577	—	—	—	1,009,414	2,170,991
Interests in joint ventures	2,215,364	(293)	—	—	—	2,215,071
Trade and other receivables, prepayments and deposits	34,464	—	—	—	—	34,464
Deferred income tax assets	298,270	(95,550)	—	—	—	202,720
Goodwill	495,970	(495,970)	—	—	—	—
	4,909,924					5,148,797
Current assets						
Properties held for sale	703,792	—	—	—	—	703,792
Properties under development	9,629,007	(7,410,686)	—	—	—	2,218,321
Inventories	30,202	—	—	—	—	30,202
Contract assets	271,446	(34,940)	—	—	—	236,506
Trade and other receivables, prepayments and deposits	3,790,622	(1,411,381)	—	—	—	2,379,241
Restricted cash	5,788	—	—	—	—	5,788
Cash and cash equivalents	873,598	(536,053)	—	—	322,266	659,811
	15,304,455					6,233,661
Total assets	20,214,379					11,382,458

	The Group as at 30 June 2023	Pro forma adjustments				The Remaining Group as at 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b(i))*	*(Note b(ii))*	*(Note c)*	*(Note d)*	
Non-current liabilities						
Trade and other payables	339,093	(334,027)	—	—	—	5,066
Financial liabilities at fair value through profit or loss	27,294	—	—	(27,294)	—	—
Lease liabilities	86,195	(79,393)	—	—	—	6,802
Borrowings	6,173,899	(3,488,154)	—	—	—	2,685,745
Deferred income tax liabilities	202,111	—	—	—	—	202,111
	6,828,592					2,899,724
Current liabilities						
Trade and other payables	8,270,302	(1,083,438)	—	—	—	7,186,864
Financial liabilities at fair value through profit or loss	327,779	—	—	—	—	327,779
Contract liabilities	240,462	(6,490)	—	—	—	233,972
Lease liabilities	31,435	(27,638)	—	—	—	3,797
Borrowings	991,109	—	—	—	—	991,109
Current income tax liabilities	695,889	(2,541)	—	—	—	693,348
	10,556,976					9,436,869
Total liabilities	17,385,568					12,336,593
Capital and reserves attributable to the shareholders of the Company						
Share capital	38,702	—	—	—	—	38,702
Reserves	378,769	—	(410,623)	—	(1,007,472)	(1,039,326)
Equity attributable to the owners of the Company	417,471					(1,000,624)
Non-controlling interests	2,411,340	(392,707)	—	—	(1,972,144)	46,489
	2,828,811					(954,135)
Total liabilities and equity	20,214,379					11,382,458

3. Unaudited Pro Forma Condensed Consolidated Statement of Profit or Loss of the Remaining Group for the six months ended 30 June 2023

	The Group for the period ended 30 June 2023	Pro forma adjustments					The Remaining Group for the period ended 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e(i))*	*(Note e(ii))*	*(Note c)*	*(Note f)*	*(Note g)*	
Revenue	3,963,755	(3,728,464)	—	—	—	—	235,291
Cost of sales and services	(3,235,806)	3,068,931	—	—	—	—	(166,875)
Gross profit	727,949						68,416
Other income	11,665	(14,733)	—	—	—	—	(3,068)
Selling expenses	(250,319)	242,127	—	—	—	—	(8,192)
Administrative expenses	(432,028)	339,823	—	—	—	—	(92,205)
Net impairment gains on financial and contract assets	35,832	—	—	—	—	—	35,832
Fair value losses	(16,046)	—	—	16,046	—	—	—
Other gains/(losses) — net	10,889	—	—	—	—	(1,218,475)	(1,207,586)
Operating profit (loss)	87,942						(1,206,803)
Finance income	6,089	—	—	—	—	—	6,089
Finance costs	(99,863)	—	—	—	—	—	(99,863)
Finance costs — net	(93,774)						(93,774)
Share of net profit of associates	(890)	—	—	—	18,826	—	17,936
Share of net profit of joint ventures	49,963	—	—	—	—	—	49,963
Profit (loss) before income tax	43,241						(1,232,678)
Income tax expenses	(46,896)	22,702	—	—	—	—	(24,194)
Loss for the period	(3,655)						(1,256,872)

	The Group for the period ended 30 June 2023	Pro forma adjustments					The Remaining Group for the period ended 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e(i))*	*(Note e(ii))*	*(Note c)*	*(Note f)*	*(Note g)*	
Loss for the period attributable to:							
The shareholders of the Company	(35,367)	(56,902)	24,001	8,084	18,826	(1,218,475)	(1,259,833)
Non-controlling interests	31,712	(12,712)	(24,001)	7,962	—	—	2,961
	(3,655)						(1,256,872)

4. Unaudited Pro Forma Condensed Consolidated Statement of Cash Flows of the Remaining Group for the six months ended 30 June 2023

	The Group for the period ended 30 June 2023	Pro forma adjustments				The Remaining Group for the period ended 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e(i))*	*(Note e(ii))*	*(Note h)*	*(Note i)*	
Cash flows from operating activities						
Cash generated from operations	296,242	126,180	—	—	—	422,422
Taxes paid	(41,465)	(46,632)	—	—	—	(88,097)
Interest paid	(353,353)	—	—	—	—	(353,353)
Net cash used in operating activities	**(98,576)**					**(19,028)**
Cash flows from investing activities						
Interest received	199	—	—	—	—	199
Dividend from joint ventures	3,250	—	—	—	—	3,250
Dividend from associates	5,101	—	—	—	—	5,101
Proceeds from acquisition of subsidiaries, net of cash and cash equivalents	606	—	—	—	—	606
Proceeds from repurchase of shares by an associate	—	—	—	22,015	—	22,015
Proceeds from disposal of shares of an associate	—	—	—	147,771	—	147,771
Net cash outflow from disposal of a subsidiary	—	—	—	—	(550,517)	(550,517)
Purchase of property, plant and equipment	(10,045)	24,887	—	—	—	14,842
Proceeds from disposal of property, plant and equipment	55	—	—	—	—	55
Funding to related parties	(15,500)	—	—	—	—	(15,500)
Collection of funding to related parties	6,000	—	—	—	—	6,000
Net cash used in investing activities	**(10,334)**					**(366,178)**

	The Group for the period ended 30 June 2023		Pro forma adjustments			The Remaining Group for the period ended 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note e(i))*	*(Note e(ii))*	*(Note h)*	*(Note i)*	
Cash flows from financing activities						
Proceeds from borrowings	1,409,913	(1,324,167)	—	—	—	85,746
Repayments of borrowings	(1,836,400)	1,506,379	—	—	—	(330,021)
Settlement of financial liability	(15,792)	1,024	—	—	—	(14,768)
Principal elements of lease payments	(16,740)	—	—	—	—	(16,740)
Repayment of lending from third parties	(10,500)	—	—	—	—	(10,500)
Repayments to related parties	(3,536)	—	—	—	—	(3,536)
Repurchase of shares of a subsidiary	(30,087)	52,102	—	(22,015)	—	—
Proceeds from disposal of shares of a subsidiary	147,771	—	—	(147,771)	—	—
Shares bought back for employee share trust	(206)	4,844	—	—	—	4,638
Decrease in restricted cash	55,917	—	—	—	—	55,917
Net cash used in financing activities	**(299,660)**					**(229,264)**
Net decrease in cash and cash equivalents	**(408,570)**					**(614,470)**
Cash and cash equivalents at beginning of the period	1,252,056	—	—	—	—	1,252,056
Effect of foreign exchange rate changes	30,112	—	(19,607)	—	—	10,505
Cash and cash equivalents at end of the period	873,598					648,091

5. Notes to the Unaudited Pro Forma Financial Information of the Remaining Group

a. The Group's financial information is based on the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2023, which has been derived from the Company's published interim report for the period ended.

b. (i) The adjustment represents the exclusion of assets and liabilities of the Target Company as if the Proposed Disposal had taken place on 30 June 2023 assuming that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. The financial information of the Target Company is based on unaudited condensed consolidated financial information of the Target Company for the six months ended 30 June 2023 which has been derived from the published interim report of the Target Company, while certain balances are re-presented to conform with the presentation of the unaudited condensed consolidated financial statement of the Group. The adjustment also excluded the non-controlling interests of the subsidiaries of the Target Company which has also been derived from the published interim report of the Target Company for the six months ended 30 June 2023. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted is US$1: RMB7.23. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

(ii) The adjustment represents the effect of release of accumulated translation reserve of RMB410,623,000 and RMB235,376,000 of the Target Company as at 30 June 2023 and 1 January 2023, respectively, which has been derived from the unaudited management accounts of the Group. It is assumed that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control.

c. The adjustment represents the reversal of unaudited consolidation adjustments in relation to the differences between the accounting policies adopted by the Target Company in accordance with US GAAP adjusted by the Company in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") ("**GAAP adjustment**") which derived from the unaudited management account of the Group. The Target Company had 15,525,000 outstanding public warrants as at 1 January 2023 and 30 June 2023. The Target Company recorded such warrant as equity at initial cost in accordance to US GAAP. The Company recorded such warrants as a liability at fair value on its consolidated balance sheets with subsequent changes in fair value recognized in the consolidated statement of profit or loss at each reporting date as a fair value gain/(loss) on remeasurement of the warrant liability in accordance to HKFRS. As such, pro forma adjustments are made to reverse such GAAP adjustment on financial liabilities at fair value through profit or loss of RMB27,294,000 at 30 June 2023 and fair value losses of RMB16,046,000 for six months period ended 30 June 2023 including RMB8,084,000 attributable to the shareholder of the Company and RMB7,962,000 attributable to non-controlling interest, respectively.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted as at 30 June 2023 is US$1:RMB7.23, and the exchange rate adopted for the six months ended 30 June 2023 is US$1: RMB6.97. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

d. The adjustment represents (i) the consideration for the Proposed Disposal; (ii) the incurrence of expenses directly attributable to the Proposed Disposal (including legal and other costs); (iii) recognition of gain on the Proposed Disposal (before directly attributable expenses); (iv) recognition of interest in an associate in relation to the 38.13% equity interest in the Target Company retained by the Group is derived from 19,740,729 shares held by the Group at 30 June 2023 less 4,800,000 shares out of the total issued and outstanding shares of 39,182,181 of the Target Company as at 30 June 2023, and (v) release of relevant translation reserve as if the Proposed Disposal had taken place on 30 June 2023. It is assumed that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. It is also assumed that Group will settle the directly attributable expenses by cash at completion of the Proposed Disposal and there is no tax impact on the loss on the Proposed Disposal.

	Notes	*RMB'000*
Estimated consideration for the Proposed Disposal	(i)	324,294
Less: Net assets of the Target Company as at 30 June 2023 under US GAAP	(ii)	(5,141,920)
GAAP adjustment on net assets of the Target Company as at 30 June 2023	(iii)	27,294
Estimated professional costs directly attributable to the Proposed Disposal		(2,028)
Add: Fair value of 38.13% of equity interests retained on 30 June 2023	(iv)	1,009,414
Non-controlling interest of the subsidiaries of the Target Company	(ii)	392,707
Translation reserve arising on translation of foreign operations reclassified to profit or loss *(see Note b(ii))*		410,623
Non-controlling interest of the Target Company	(v)	1,972,144
Estimated loss on the Proposed Disposal on 30 June 2023	(vi)	(1,007,472)

Notes:

(i) According to the disposal agreement, the consideration of the Proposed Disposal is the higher of the Minimum Selling Price of US$9.35 as defined in the circular dated 9 February 2024 (the "**Circular**") issued by the Company and the price of no more than 20% discount to the average of the closing price of shares of the Target Company as quoted on National Association of Securities Dealers Automated Quotations capital market for the five (5) consecutive trading days immediately before the date of each Disposal during the 6-month period from the date of passing of the relevant resolution approving the Possible Disposal at the SGM. Given the closing market price per share of the Target Company at 30 June 2023 is lower than the Minimum Selling Price, the estimated consideration of RMB324,294,000 is based on 4,800,000 shares of the Target Company assuming to be disposed at Minimum Selling Price of US$9.35 per share at exchange rate of US$1: RMB7.23. Such assumption is subject to change upon actual completion of the Proposed Disposal due to the actual selling prices may differ materially form the Minimum Selling Price.

(ii) The amounts are based on the unaudited condensed consolidated financial information of the Target Company for the six months ended 30 June 2023 which has been derived from the published interim report of the Target Company under US GAAP. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted is

US$1:RMB7.23. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

(iii) The amount represented the GAAP adjustment on outstanding public warrants of the Target Company of RMB27,294,000 derived from the unaudited management account of the Group which is recorded as financial liabilities at fair value through profit or loss at 30 June 2023 under HKFRS.

(iv) For the purpose of Unaudited Pro Forma Financial Information of the Remaining Group, the fair value of the 38.13% equity interest on the Target Company on 30 June 2023 retained may be determined by making reference to observable market information such as price quoted in active market or recent transaction price. For the sake of simplicity and for the purpose of this pro forma financial information, the fair value of retained interest of RMB1,009,414,000 is assessed by making reference to the estimated consideration of the possible disposal of 4,800,000 shares assuming that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. The fair value of the interest in the Target Company used for the purpose of the Unaudited Pro Forma Financial Information is solely for the sake of convenience and is not a market price of the Target Company that reflect effect of the Proposed Disposal. The fair value of the retained interest in the Target Company is subject to changes upon completion of the Proposed Disposal because the fair value of the retained interest in the Target Company shall be assessed at the date of the actual completion of the Proposed Disposal.

(v) The amount represented the derecognition of non-controlling interests of the Target Company as at 30 June 2023 which has been derived from the unaudited management accounts of the Group.

(vi) The amount of loss on disposal is subject to re-assessment and change based on the net asset disposed of the Target Company and the fair value of equity interest in the Target Company retained by the Group, being finalised on the date of actual completion of the Proposed Disposal. The amounts of the loss on disposal, net asset disposed and the fair value of equity interest in the Target Company retained by the Group are subject to change upon actual completion of the Proposed Disposal due to the net assets disposed, fair value assessment of equity interest in the Target Company retained by the Group, which may differ materially from the amounts disclosed above.

e. (i) The adjustment represents the exclusion of results and cash flows of the Target Company for the period ended 30 June 2023 as if the Proposed Disposal had been completed on 1 January 2023 and assuming the Target Company would cease to be a subsidiary of the Group on 1 January 2023. It is assumed that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. The assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. The financial information of the Target Company is based on unaudited condensed consolidated financial information of the Target Company for the six months ended 30 June 2023, while certain balances are re-presented to conform with the presentation of the condensed consolidated financial statement of the

Group which has been derived from the published interim report of the Target Company. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted is US$1: RMB6.97. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

(ii) The adjustment represents (a) effect of foreign exchange rate changes of cash and cash equivalents in foreign currency held by foreign subsidiaries of the Target Company of RMB19,607,000 and (b) derecognition of loss for the period attributable to the non-controlling interests of the Target Company of RMB24,001,000 upon disposal of interest in the Target Company which has been derived from the unaudited management accounts of the Group. It is assumed that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. The assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control.

f. The adjustments represent the share of the profit of the Target Company retained for the period ended 30 June 2023, assuming the Proposed Disposal had taken place on 1 January 2023 and the Target Company would cease to be a subsidiary of the Group on 1 January 2023. The Group's shareholding of 46.08% equity interests retained at 1 January 2023 is derived from 23,640,729 shares held by the Group at 1 January 2023 less 4,800,000 shares out of the total issued and outstanding shares of 40,884,268 of the Target Company as at 1 January 2023. For the purpose of Unaudited Pro Forma Financial Information of the Remaining Group, these adjustments have not taken into the account of the net decrease in shareholdings in the Target Company of 3,900,000 shares by the Group during the six months period ended 30 June 2023 and any further change in the Group's shareholdings in the Target Company subsequent to 30 June 2023. For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that there is no fair value adjustment on the identifiable assets of the Target Company which may affect the share of results of the Target Company.

	Notes	*RMB'000*
Profit for the six months ended 30 June 2023 under US GAAP attributable to the shareholders of the Target Company	(i)	56,902
GAAP adjustment on profit of the Target Company for the six months ended 30 June 2023	(ii)	(16,046)
Profit for the six months ended 30 June 2023 under HKFRS attributable to the shareholders of the Target Company		40,856
46.08% share of profit of the Target Company		18,826

Notes:

(i) The amounts are based on the unaudited condensed consolidated financial information of the Target Company for the six months ended 30 June 2023 which has been derived from the published interim report of the Target Company. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted is US$1:RMB6.97. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

(ii) The amount represented the GAAP adjustment on fair value changes of RMB16,046,000 on the financial liabilities at fair value through profit or loss of the Target Company of the Group for the six months ended 30 June 2023 under HKFRS.

g. The adjustments represent (i) the incurrence of expenses directly attributable to the Proposed Disposal (including legal and other costs); and (ii) recognition of gain on the Proposed Disposal (before directly attributable expenses), as if the Proposed Disposal had taken place on 1 January 2023 and assuming the Target Company would cease to be a subsidiary of the Group on 1 January 2023. For the purpose of Unaudited Pro Forma Financial Information of the Remaining Group, these adjustments have not taken into the account of the net decrease in shareholdings in the Target Company of 3,900,000 shares by the Group during the six months period ended 30 June 2023 and any further change in the Group's shareholdings in the Target Company subsequent to 30 June 2023. It is assumed that the Target Company will cease to be a subsidiary of the Group upon the completion of the Proposed Disposal. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. It is also assumed that Group will settle the directly attributable expenses by cash at completion of the Proposed Disposal and there is no tax impact on the loss on the Proposed Disposal.

	Notes	*RMB'000*
Estimated consideration for the Proposed Disposal	(i)	312,571
Less: Net assets of the Target Company as at 1 January 2023 under HKFRS	(ii)	(4,936,815)
Estimated professional costs directly attributable to the Proposed Disposal		(2,028)
Add: Fair value of 46.08% of equity interests retained on 1 January 2023	(iii)	1,226,890
Non-controlling interest of the subsidiaries of the Target Company	(ii)	378,659
Translation reserve arising on translation of foreign operations reclassified to profit or loss *(see Note b(ii))*		235,376
Non-controlling interest of the Target Company	(iv)	1,566,872
Estimated loss on the Proposed Disposal on 1 January 2023	(v)	(1,218,475)

Notes:

(i) According to the disposal agreement, the consideration of the Proposed Disposal is the higher of the Minimum Selling Price of US$9.35 as defined in the circular and the closing market price of the Target Company on completion date of the proposed disposal. Given the closing market price per share of the Target Company at 30 June 2023 is lower than the Minimum Selling Price, the estimated consideration of RMB312,571,000 is based on 4,800,000 shares of the Target Company assuming to be disposed at Minimum Selling Price of US$9.35 per share at exchange rate of US$1:RMB6.96. Such assumption is subject to change upon actual completion of the Proposed Disposal due to the actual selling prices may differ materially form the Minimum Selling Price.

(ii) The amounts are based on the total equity amount of the Target Company as at 31 December 2022 under HKFRS which has been derived from the Unaudited Adjusted Financial Information Under the Company's Policies as set out in Appendix II to the Circular. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rate adopted is US$1:RMB6.96. No representation is made that the US$ amounts have been, could have been or could be converted to RMB, or vice versa, at those rates or at any other rates or at all.

(iii) For the purpose of Unaudited Pro Forma Financial Information of the Remaining Group, the fair value of the equity interest on the Target Company on 1 January 2023 retained may be determined by making reference to observable market information such as price quoted in active market or recent transaction price. For the sake of simplicity and for the purpose of this pro forma financial information, the fair value of retained interest of RMB1,226,890,000 is assessed by making reference to the estimated consideration of the possible disposal of 4,800,000 shares assuming that the Target Company will cease to be a subsidiary of the Group on 1 January 2023. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control. The fair value of the interest in the Target Company used for the purpose of the Unaudited Pro Forma Financial Information is solely for the sake of convenience and is not a market price of the Target Company that reflect effect of the Proposed Disposal. The fair value of the retained interest in the Target Company is subject to changes upon completion of the Proposed Disposal because the fair value of the retained interest in the Target Company shall be assessed at the date of the actual completion of the Proposed Disposal.

(iv) The amount represented the derecognition of non-controlling interests of the Target Company as at 1 January 2023 which has been derived from the unaudited management accounts of the Group.

(v) The amount of loss on disposal is subject to re-assessment and change based on the net asset disposed of the Target Company and the fair value of equity interest in the Target Company retained by the Group, being finalised on the date of actual completion of the Proposed Disposal. The amounts of the loss on disposal, net asset disposed and the fair value of equity interest in the Target Company retained by the Group are subject to change upon actual completion of the Proposed Disposal due to the net assets disposed, fair value assessment of equity interest in the Target Company retained by the Group, which may differ materially from the amounts disclosed above.

h. The adjustments represent (i) the reversal of intra-group shares repurchase transactions of RMB22,015,000 by the Target Company, which were eliminated in the consolidated financial statements of the Group for the six months ended 30 June 2023, and (ii) reclassification of proceeds from repurchase of shares of a subsidiary, the Target Group, and proceeds from disposal of shares of a subsidiary to proceeds from repurchase of shares by an associate and proceeds from disposal of shares of an associate in the unaudited pro forma consolidated cash flow statement assuming the Target Company would cease to be a subsidiary, and become an associate, of the Group on 1 January 2023 upon the completion of the Proposed Disposal on 1 January 2023. Such assumption is subject to further assessment upon actual completion and it depends on a variety of factors and facts and circumstances at the time such as the relative rights of other interested parties in order to determine whether the Group has control or de facto control.

i. The adjustments represent the net cash flow as if the Proposed Disposal had taken place on 1 January 2023:

	RMB'000
Estimated consideration for the Proposed Disposal *(see Note g(i))*	312,571
Estimated professional cost directly attributable to the Proposed Disposal	(2,028)
Cash and cash equivalents of the Target Company as at 1 January 2023	(861,060)
Net cash outflows from the Proposed Disposal, net of cash disposed of	(550,517)

j. Other than the adjustments relating to financial impacts on the remaining share of the Target Company, the adjustments in respect of the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated cash flow statement above are not expected to have a continuing effect on the Remaining Group.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Landsea Green Management Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Landsea Green Management Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma condensed consolidated balance sheet as at 30 June 2023, the unaudited pro forma condensed consolidated statement of profit or loss for the six months ended 30 June 2023, the unaudited pro forma condensed consolidated statement of cash flows for the six months ended 30 June 2023 and related notes as set out on pages IV-1 to IV-15 of the circular issued by the Company dated 9 February 2024 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-15 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of equity interest in Landsea Homes Corporation ("**Target Company**") (the "**Proposed Disposal**") on the Group's financial position as at 30 June 2023 and the Group's financial performance and cash flows for the six months ended 30 June 2023 as if the Proposed Disposal had taken place at 30 June 2023 and 1 January 2023 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Company's published interim report for the period ended 30 June 2023 on which no review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2023 or 1 January 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

9 February 2024

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 November 2023 of the selected property interests held by the Landsea Homes Group.

仲量聯行

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The Board of Directors
Landsea Green Management Limited
Unit 406, 4/F,
8 Queen's Road East,
Wan Chai,
Hong Kong

9 February 2024

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by Landsea Green Management Limited (the "**Company**") to provide valuation service on the selected properties in which Landsea Homes Corporation ("**Landsea Homes**", a non-wholly owned subsidiary of the Company) and its subsidiaries (hereinafter together referred to as the "**Landsea Homes Group**") have interests in the United States of America (the "**US**") for disclosure purpose.

We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 30 November 2023 (the "**valuation date**").

According to Landsea Homes, for those properties held by Landsea Homes Group as at 30 November 2023 and has not been disclosed and valued in our valuation report, their book values are less than 1% of the Company's total asset as at 30 June 2023 and the total book value of such properties is less than 10% of the Company's total assets as at 30 June 2023. Accordingly, such properties are excluded from the scope of valuation pursuant to 5.02A(5) of the Listing Rules.

Our valuation is carried out on a market value basis. Market value is defined as ''the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion''

In valuing the property interests in Group I which are held under development by Landsea Homes Group, we have assumed that they will be developed and completed in accordance with the latest development proposals provided to us by the Landsea Homes Group. In arriving at our opinion of values, we have adopted the comparison approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development. We have relied on the accrued construction cost and professional fees information provided by the Landsea Homes Group according to the different stages of construction of the properties as at the valuation date, and we did not find any material inconsistency from those of other similar developments.

We have valued the property interest in Group II which is held for sale by Landsea Homes Group by the comparison approach assuming sale of the property interest in its existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and the Landsea Homes Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including Approved Tract Map, Site Development Permits, Design Approvals and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in US and any material encumbrance that might be attached to the property interests or any tenancy amendment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Landsea Homes Group. We have also sought confirmation from the Company and the Landsea Homes Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out between November 2023 and February 2024 by Jason Beakley, who is a Certified General Appraiser and has 9 years of experience of property valuation in the US, Stephanie Ferraris, who is a Certified General Appraiser and has 12 years of experience of property valuation in the US, James Kim, who is a Certified General Appraiser and Certified Residential Appraiser and has 15 years of experience of property valuation in the US, and Elisabeth Adorno, who is a Certified General Appraiser and has 9 years of experience of property valuation in the US.

Unless otherwise stated, all monetary figures stated in this report are in United States Dollar (USD). Where necessary, the exchange rates adopted in our valuation are approximately USD1 = HKD7.81, being the prevailing exchange rate as at the valuation date.

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C.H. Chan
MRICS MHKIS RPS (GP)
Senior Director

Note: Gilbert C. H. Chan is a Chartered Surveyor who has 30 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the US.

SUMMARY OF VALUES

Group I — Property interests held under development by Landsea Homes Group in the US

No.	Property	Market value in existing state as at the valuation date *USD*	Interest attributable to Landsea Homes	Aggregate market value attributable to Landsea Homes as at the valuation date *USD*
1.	Alameda Marina at 2033 Clement Ave Alameda California The US	77,940,000	100%	77,940,000
2.	Anthem at North side of FM 150 Kyle Texas The US	73,740,000	100%	73,740,000
3.	Citrus Park at Sanctuary Village 3403 S. 179th Drive Goodyear Arizona The US	54,690,000	100%	54,690,000
4.	Eastmark at 4507 South Pauli Mesa Arizona The US	35,740,000	100%	35,740,000
5.	Sunrise at 16843 W. Cavedale Drive Surprise Arizona The US	63,480,000	100%	63,480,000

No.	Property	Market value in existing state as at the valuation date *USD*	Interest attributable to Landsea Homes	Aggregate market value attributable to Landsea Homes as at the valuation date *USD*
6.	Lavender at 925 S. Wolfe Rd Sunnyvale California The US	26,930,000	100%	26,930,000
7.	Tirador at 27124 Calle Arroyo San Juan Capistrano California The US	33,630,000	100%	33,630,000
8.	Narra Hills at 17654 Duncan Canyon Road Ontario Fontana California The US	162,400,000	100%	162,400,000
9.	Ellis T & C at 2885 Ellis Town Drive Tracey California The US	7,720,000	100%	7,720,000
10.	Neuhouse at East of South Twinkle Ontario California The US	15,520,000	100%	15,520,000
11.	Placentia at 1580 Lima Way Placentia California The US	40,030,000	100%	40,030,000

No.	Property	Market value in existing state as at the valuation date *USD*	Interest attributable to Landsea Homes	Aggregate market value attributable to Landsea Homes as at the valuation date *USD*
12.	VanEyk at 3550 East Pollock Street Ontario California The US	630,000	100%	630,000
13.	Wildera at 7049 East Bushy Tail Ln Pinal Arizona The US	16,040,000	100%	16,040,000
14.	Bentridge at 2979 South 234th Ln Buckeye Arizona The US	27,950,000	100%	27,950,000
15.	North Copper Canyon 3.1&3.2 at 22983 North 183rd Drive Surprise Arizona The US	15,130,000	100%	15,130,000
16.	North Copper Canyon 3.3 at 23913 North 183rd Drive Surprise Arizona The US	17,900,000	100%	17,900,000

No.	Property	Market value in existing state as at the valuation date *USD*	Interest attributable to Landsea Homes	Aggregate market value attributable to Landsea Homes as at the valuation date *USD*
17.	El Cidro at 17541 W Fulton Street Goodyear Arizona The US	13,700,000	100%	13,700,000
18.	Bargrove at 5294 Obsidian Gate Drive Mt Dora Florida The US	30,580,000	100%	30,580,000
19.	Hanover Lakes at 4930 Chase Court St. Cloud Florida The US	6,740,000	100%	6,740,000
20.	Trinity Lakes at 7104 Dilly Lake Ave Groveland Florida The US	26,400,000	100%	26,400,000
21.	Ridgeview at 7504 Catania Loop Clearmont Florida The US	33,150,000	100%	33,150,000
	Sub-total:	**780,040,000**		**780,040,000**

Group II — Property interest held for sale by Landsea Homes Group in the US

No.	Property	Market value in existing state as at the valuation date *USD*	Interest attributable to Landsea Homes	Aggregate market value attributable to Landsea Homes as at the valuation date *USD*
22.	Forena Condominiums at 540 Sixth Avenue New York City New York The US	23,470,000	96%	22,531,000
	Sub-total:	**23,470,000**		**22,531,000**
	Grand total	**803,510,000**		**802,571,000**

VALUATION CERTIFICATE

Group I — Property interests held under development by Landsea Homes Group in the US

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
1	Alameda Marina 2033 Clement Ave Alameda California The US	The subject property is a townhome residential subdivision with 182 units that are owned by LC — Alameda Marina LLC. The subject site work has commenced. The total site area of the subdivision is 15.103 acres/657,887 sq.ft. The homes being constructed are 2.5–4 bedrooms with 1,400 to 2,700 sq.ft. on average. Upon completion, the property will contain approximately 453,064 sq.ft. of house floor area. As advised by Landsea Homes Group, the property is scheduled to be completed in 2027. The total construction cost remaining to complete the subdivision development is USD136,643,128 or USD750,786 per unit.	As at the valuation date, the property was under construction.	77,940,000 (equivalent to HKD608,711,400)

Notes:

1. The owner of the property is LC — Alameda Marina LLC (a wholly-owned subsidiary of Landsea Homes). LC — Alameda Marina LLC owns the 182 lots outright under fee simple ownership. The lots will have town home residences constructed that are marketed for sale to individual home buyers.

2. Pursuant to the Grant Deed, the land parcel of subject property has been granted to ARROYO CAP II-5, LLC witness and recorded by the state of California County of Marina on 21st April 2021. As advised by Landsea Homes Group, Alameda Marina subdivision is under the ownership of Arroyo Cap II-5, LLC; however, LC — Alameda Marina LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property site is currently zoned for MX, Mixed use.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Recorded Plat

   — Covenants, Conditions & Restrictions

   — Grant Deed

5. Pursuant to a recorded Plat, with the series No.2022131489 dated 22nd July 2022, the development plat has been approved by County of Alameda, California.

6. Location Description — Alameda Marina Subdivision is located in the city of Alameda, CA within Alameda County. The site has marina frontage and is located approximately 10 minutes to Highway 61, providing access to Oakland and highways crossing the bay to San Francisco. The population within a 1-mile radius of the subject is projected to grow just slightly more than the MSA overall. The median home value of the subject area is similar to the of the San Francisco MSA, and higher than the state overall.

7. The market value of the property as if completed as at the valuation date was estimated to be USD245,700,000.

8. We have identified and analyzed various relevant sale evidence of residential town homes in the locality which have similar characteristics of the subject property, such as size, layout and condition. The selected comparable are located in the subject's location, noting a limited number of new construction units (town homes or detached). The newer town homes in the subject's general area are selling between USD800,000 and USD1,550,000.

9. As advised by Landsea Homes Group, 14 residential townhome units with a total house floor area of approximately 31,063 sq.ft. have been pre-sold to various third parties at a total consideration of USD18,494,066. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or conditions, covenants and restrictions, a set of documents that (i) are often found in a condominium or a subdivision, these are rules, written into the deeds or bylaws, that define how property may be used and (ii) prevent property owners from making changes to their individual properties that could result in an unattractive or inharmonious setting, which could adversely affect other owners ("**CC&R's**"), that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
2	Anthem at North side of FM 150 Kyle Texas The US	The subject property is a single-family residential subdivision with 880 units that are owned by Anthem 918 LLC. The subject site work has commenced. The total site area of the subdivision is 221.088 acres/ 9,630,592 sq.ft. The homes being constructed are 3–5 bedrooms with 2,000+/- sq.ft. on average. Upon completion, the property will contain approximately 1,760,000 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2028. The total construction cost remaining to complete the subdivision development is USD215,451,581 or USD244,831 per unit.	As at the valuation date, the property was under construction.	73,740,000 (equivalent to HKD575,909,400)

Notes:

1. The owner of the property is Anthem 918 LLC (a wholly-owned subsidiary of Landsea Homes). Anthem 918 LLC owns the 880 lots outright under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. Pursuant to a Tax bill accounting record dated 27th June 2023, Anthem 918 LLC are stated as the owner of the subject property.

3. The property is located in unincorporated Hays County with residential allowed.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

    — Preliminary Plan

5. Location Description — Anthem Subdivision is located in the city of Kyle, TX within Hays County. The property is located approximately 6 miles from Interstate 35 and approximately 25 mile south of Austin central. The community is situated at the terminus of Anthem Parkway. The population within a 1-mile radius of the subject is projected to grow at almost 20% over the next 5 years, noting that a new 1.4 million sq.ft. industrial park (35 Logistics) is planned for Kyle, and Tesla will be leasing 3 of the 5 warehouses. Kyle is experiencing extremely strong demand for this reason and due to the steep increase that has occurred in nearer Austin; however, some stabilization is being seen in the Kyle market and Austin MSA overall.

6. The market value of the property as if completed as at the valuation date was estimated to be USD330,000,000.

7. We have identified and analyzed various relevant sale evidence of residential units in the locality which have similar characteristics of the subject property. The selected comparable are located in the subject's area. These units are selling between USD325,000 and USD495,000.

8. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

9. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
3	Citrus Park at Sanctuary Village 3403 S. 179th Drive Goodyear Arizona The US	The subject property is a single-family residential subdivision with 616 units that are owned by LS-Citrus Park, LLC. The subject site work has commenced. The total site area of the subdivision is 160.360 acres/ 6,985,282 sq.ft. The homes being constructed are 3–5 bedrooms with 1,500 to 2,500 sq.ft. on average. Upon completion, the property will contain approximately 1,232,000 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2028. The total construction cost remaining to complete the subdivision development is USD198,298,518 or USD321,913 per unit.	As at the valuation date, the property was under construction.	54,690,000 (equivalent to HKD427,128,900)

Notes:

1. The owner of the property is LS-Citrus Park, LLC (a wholly-owned subsidiary of Landsea Homes). LS-Citrus Park, LLC owns the 616 lots outright under fee simple ownership. LS-Citrus Park, LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed, the land parcel of subject property has been granted to ARROYO CAP II-2, LLC witness and recorded by the state of Arizona County of Maricopa on 22nd June 2021. As advised by Landsea Homes Group, Citrus Park subdivision is under the ownership of Arroyo CAP II-2, LLC; however, LS-Citrus Park, LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for R1–4, Single Family Residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plat — Phases 1, 2A, 2B and 3

   — Owner Policy Title Insurance

   — CC&R's

5. Pursuant to a recorded Plat, with the series No.20220146617 dated 17th February 2022, the development plat has been approved by Maricopa County, Arizona.

6. Location Description — Citrus Park Subdivision is located in the city of Goodyear, AZ within Maricopa County. The property is located approximately three miles from Highway 10 and Highway 303 interchange, which provides access to employment centers within the Phoenix MSA. The MSA remains strong marked by low unemployment, low resale supply and solid income growth. The community is situated on the SW corner of W. Lower Buckeye Rd and Citrus Rd. The population density in the immediate surrounding areas is projected to grow at a much higher rate than the county and state overall. Goodyear has experienced a stronger than typical housing market over the last several years, similar to most housing markets in the US.

7. The market value of the property as if completed as at the valuation date was estimated to be USD283,360,000.

8. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD360,000 and USD515,000. The concluded USD/home is in consideration of the subject's remaining inventory.

9. As advised by Landsea Homes Group, 8 residential townhome units with a total house floor area of approximately 17,110 sq.ft. have been pre-sold to various third parties at a total consideration of USD3,290,041. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
4.	Eastmark at 4507 South Pauli Mesa Arizona The US	The subject property is a single-family residential subdivision with 181 units that are owned by LS-Eastmark LLC. The subject site work has commenced. The total site area of the subdivision is 71.578 acres/ 3,117,938 sq.ft. The homes being constructed are 3–6 bedrooms with 1,776 to 3,045 sq.ft. Upon completion, the property will contain approximately 595,804 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2025. The total construction cost remaining to complete the subdivision development is USD34,837,058 or USD192,470 per unit.	As at the valuation date, the property was under construction.	35,740,000 (equivalent to HKD279,129,400)

Notes:

1. The owner of the property is LS-Eastmark LLC (a wholly-owned subsidiary of Landsea Homes). LS-Eastmark LLC owns the 181 lots outright under fee simple ownership. LS-Eastmark LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed, the land parcel of subject property has been granted to LS-Eastmark LLC was acknowledged by the state of Arizona County of Maricopa on 6th December 2019.

3. The property is zoned PC-Planned Community District, and the planned development is a legal use.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plat — Parcel A, B, C, D

   — Owner Policy Title Insurance

   — Covenants, Conditions & Restrictions

   — Special Warranty Deed

5. Pursuant to a recorded Plat, with the series No.20210552275 dated 18th May 2021, the development plat has been approved by Maricopa County, Arizona.

6. Location Description — Eastmark Subdivision is located in the city of Mesa, AZ within Maricopa County. The property is located approximately four miles from Highway 60 and Highway 303 interchange, which provides access to employment centers within the Phoenix MSA. The community is located approximately 20 miles east of Phoenix central. The population density in the immediate surrounding areas is projected to grow at a much higher rate than the county and state overall. Mesa has experienced a stronger than typical housing market over the last several years, similar to most housing markets in the US. With recent economic changes that have been occurring (year over year housing inflation coupled with increased interest rates), Mesa, AZ seems to be experiencing some level of stabilization as home prices have decreased by approximately 4% from 12 months prior.

7. The market value of the property as if completed as at the valuation date was estimated to be USD85,975,000.

8. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's immediate location and new construction. These homes are selling between a typical range of USD400,000 to USD600,000.

   In addition to the sales in the subject's subdivision, we surveyed homes built 2022 and newer in Mesa and the data reports 206 homes that bracket the subject's lot size and home size have sold in the last 6 months, ranging between USD385,000 and USD650,000 on average.

9. As advised by Landsea Homes Group, 15 residential townhome units with a total house floor area of approximately 26,886 sq.ft. have been pre-sold to various third parties at a total consideration of USD7,104,246. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
5	Sunrise at 16943 W. Cavedale Drive Surprise Arizona The US	The subject property is a single-family residential subdivision with 353 units that are owned by GWH Sunrise LLC. The subject site work has commenced. The total site area of the subdivision is 206.381 acres/ 8,989,956 sq.ft. The homes being constructed are 3–6 bedrooms with 1,776 to 3,045 sq.ft. Upon completion, the property will contain approximately 826,000 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD71,525,481 or USD202,622 per unit.	As at the valuation date, the property was under construction.	63,480,000 (equivalent to HKD495,778,800)

Notes:

1. The owner of the property is GWH Sunrise LLC (a wholly-owned subsidiary of Landsea Homes). GWH Sunrise LLC owns the 353 lots outright under fee simple ownership. GWH Sunrise LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed, the land parcel of subject property has been granted to GWH Sunrise, LLC was acknowledged by the state of Arizona County of Maricopa on 25th August 2020.

3. The property is zoned for R2 — Residential medium density with PUD Overlay.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

— Final Recorded Plat — Parcel A, B, C, D

— Owner Policy Title Insurance

— Covenants, Conditions & Restrictions

— Special Warranty Deed

5. Pursuant to four recorded Plats, with the series No.20200819445, 20200820264, 20200820271 and 20200820412 dated 2nd September 2020, the development plat has been approved by Maricopa County, Arizona.

6. Location Description — Sunrise Subdivision is located in the city of Surprise, AZ within Maricopa County. The subject is located approximately four miles from Highway 60 and Highway 303 interchange, which provides access to employment centers within the Phoenix MSA. The community is located approximately 30 miles northwest of Phoenix central. The population density in the immediate surrounding areas is projected to grow at a much higher rate than the county and state overall.

7. The market value of the property as if completed as at the valuation date was estimated to be USD167,675,000.

8. We have identified and analyzed various relevant sale evidences of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's immediate location and new construction. These homes are selling between USD425,000 and USD570,000.

   We used a sales comparison approach and concluded to an average home price of USD475,000.

9. As advised by Landsea Homes Group, 23 residential townhome units with a total house floor area of approximately 53,868 sq.ft. have been pre-sold to various third parties at a total consideration of USD10,620,742. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
6	Lavender at 925 S. Wolfe Rd Sunnyvale California The US	The subject property is a townhome residential subdivision with 47 units that are owned by LS — 925 Wolf LLC. The subject site work has commenced. The total site area of the subdivision is 5.468 acres/ 238,186 sq.ft. The homes being constructed are 3–4 bedrooms with 1,000 to 2,010 sq.ft. Upon completion, the property will contain approximately 61,987 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2025. The total construction cost remaining to complete the subdivision development is USD25,118,898 or USD534,445 per unit.	As at the valuation date, the property was under construction.	26,930,000 (equivalent to HKD210,323,300)

Notes:

1. The owner of the property is LS — 925 Wolf, LLC (a wholly-owned subsidiary of Landsea Homes). LS — 925 Wolf LLC owns the 47 lots outright under fee simple ownership. LS — 925 Wolf LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Grant Deed, the land parcel of subject property has been granted to ARROYO CAP II-3, LLC was witness and recorded by the state of California County of Santa Clara on 19th November 2020. As advised by Landsea Homes Group, Lavender subdivision is under the ownership of Arroyo CAP II-3, LLC; however, LS-925 Wolf, LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for R-3, residential medium density.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plat

   — Grant Deed

   — Covenants, Conditions & Restrictions

5. Pursuant to a recorded Plat, with the file No.24906964 dated 5th April 2021, the development plat has been approved by Santa Clara County, California.

6. Location Description — Lavender Subdivision is a townhome community located in the city of Sunnyvale, CA within Sanat Clara County. The property is located in proximity to Highway 82, providing access to San Jose to the east and San Francisco to the northwest. The population density in the immediate surrounding areas is projected to grow slightly higher than the MSA overall; however, the median home value is much higher in a 1, 3 and 5 mile radius of the subject, in comparison to the county, and even more so, the state of CA.

7. The market value of the property as if completed as at the valuation date was estimated to be USD59,925,000.

8. We have identified and analyzed various relevant sale evidences of residential town homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's location, noting a limited number of new construction units (town home or detached). The newer town homes in Sunnyvale are selling between USD1,000,000 and USD1,500,000. The concluded USD/home is in consideration of the subject's remaining inventory.

9. As advised by Landsea Homes Group, 9 residential townhome units with a total house floor area of approximately 11,749 sq.ft. have been pre-sold to various third parties at a total consideration of USD11,913,314. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
7	Tirador at 27124 Calle Arroyo San Juan Capistrano California The US	The subject property is a single-family residential subdivision with 60 units that are owned by LS-San Juan LLC. The subject site work has commenced. The total site area of the subdivision is 16.689 acres/726,973 sq.ft. The homes being constructed have a wide range of sizes with 3–5 bedrooms and 1,500 to 3,600 sq.ft. Upon completion, the property will contain approximately 102,695 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2025. The total construction cost remaining to complete the subdivision development is USD16,324,512 or USD272,075 per unit.	As at the valuation date, the property was under construction.	33,630,000 (equivalent to HKD262,650,300)

Notes:

1. The owner of the property is LS-San Juan LLC (a wholly-owned subsidiary of Landsea Homes). LS-San Juan LLC owns the 60 lots outright under fee simple ownership. LS-San Juan LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to a secured property tax bill accounting record (2022–23), Arroyo Cap II-1 LLC is stated as the owner of the subject property. As advised by Landsea Homes Group, Tirador subdivision is under the ownership of Arroyo Cap II-1 LLC; however, LS-San Juan LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for PC, Planned Community.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plat

   — Title Report

   — Covenants, Conditions & Restrictions

5. Pursuant to a recorded Plat, with the series No.18148 dated 19th July 2022, the development plat has been approved by State of City of San Juan Capistrano, County of Orange, State of California.

6. Location Description — Tirador Subdivision is located in the city of San Juan Capistrano, CA within Orange County. The property is located very near Interstate 5 and within less than 1 mile from the primary interchange at Highway 74, which provides access to employment centers within Orange County and surrounding counties of Southern CA. The subject region remains strong marked by low unemployment, low resale supply and solid income growth. The community is situated on the S. side of Calle Arroyo.

7. The market value of the property as if completed as at the valuation date was estimated to be USD57,000,000.

8. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision as homes have been completed and sold to individual home buyers. These homes are selling between USD800,000 and USD1,400,000. The concluded USD/home is reasonable based on market dynamics.

9. As advised by Landsea Homes Group, 36 residential townhome units with a total house floor area of approximately 63,218 sq.ft. have been pre-sold to various third parties at a total consideration of USD33,094,579. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
8	Narra Hills at 17654 Duncan Canyon Road Ontario Fontana California The US	The subject property is a single-family residential subdivision with 451 units that are owned by LS-Fontana LLC. The subject site work has commenced. The total site area of the subdivision is 140.609 acres/6,124,928 sq.ft. The homes being constructed are 3–5 bedrooms with 2,500 +/- sq.ft. on average. Upon completion, the property will contain approximately 1,108,875 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2028. The total construction cost remaining to complete the subdivision development is USD124,659,112 or USD276,406 per unit.	As at the valuation date, the property was under construction.	162,400,000 (equivalent to HKD1,268,344,000)

Notes:

1. The owner of the property is LS-Fontana LLC (a wholly-owned subsidiary of Landsea Homes). LS-Fontana LLC owns the 451 lots outright under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. Pursuant to Owner's statement in the documentation of final record plat, Arroyo CAP II-6, LLC was recorded as the owner of the subject property. As advised by Landsea Homes Group, as of the valuation date of value Narra Hills subdivision is under the ownership of CAP II-6, LLC; however, LS-Fontana LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property zoned R-PC (Residential Planned Community).

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plats

   — Preliminary Reports

   — Covenants, Conditions & Restrictions

5. Pursuant to three recorded Plats, with the document No.2023–0099888 dated 26th April 2023, 2023–0185282, and 2023–0188818 dated 28th of July 2023, the development plat has been approved by San Bernadino County.

6. Location Description — Narra Hills Subdivision is located in the city of Fontana, CA within San Bernadino County. The property is located with good proximity to Interstate 15, which provides access to Highway 210 and into central San Bernadino (approximately 15 miles east). The subject development is one of the newer subdivisions in this western portion of San Bernadino MSA, that backs to the base of Angeles National Forest. The population within a 1-mile radius of the subject is projected to grow at 18% over the next 5 years as these areas further from urban centers have become of higher demand.

7. The market value of the property as if completed as at the valuation date was estimated to be USD365,800,000.

8. We have identified and analyzed various relevant sale evidence of residential units in the locality which have similar characteristics of the subject property. The selected comparable are located in the subject's area, all within the most competitive area of the subject, with newer developments. These units are selling between USD580,000 and USD985,000, with the USD700,000-USD800,000 range being the majority.

9. As advised by Landsea Homes Group, 95 residential townhome units with a total house floor area of approximately 260,813 sq.ft. have been pre-sold to various third parties at a total consideration of USD80,261,368. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
9	Ellis T & C at 2885 Ellis Town Drive Tracey Carlifornia The US	The subject property is a single-family residential subdivision with 33 units that are owned by LS-Tracy LLC. The subject site work has commenced. The total site area of the subdivision is 73.65 acres/3,208,194 sq.ft. The homes being constructed are 4 or 5 bedrooms with 3,100 +/- sq.ft. Upon completion, the property will contain approximately 99,685 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2025. The total construction cost remaining to complete the subdivision development is USD18,469,606 or USD559,685 per unit.	As at the valuation date, the property was under construction.	7,720,000 (equivalent to HKD60,293,200)

Notes:

1. The owner of the property is LS-Tracy LLC (a wholly-owned subsidiary of Landsea Homes). LS-Tracy LLC owns the 33 lots outright under fee simple ownership. LS-Tracy LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Grant Deed issued by state of California County of San Joaquin, the land parcel of subject property has been granted to LS-TRACY LLC witness and recorded by the state of California County of San Joaquin on 4 November 2020.

3. The property is zoned for MDR, Medium Density Residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Final Recorded Plat

   — Owner Policy Title Insurance

   — Covenants, Conditions & Restrictions

5. Pursuant to a recorded Plat, with the series No.2021–096783 dated 4th June 2021, the development plat has been approved by San Joaquin County, California.

6. Location Description — Ellis T & C Subdivision is located in the city of Tracey, AZ within San Joaquin County. The property is located approximately five miles from Interstate 205, which provides access to Stockton to the northeast, Modesto to the southeast, Oakland and San Francisco to the west and San Jose to the southwest. Tracey, CA is the 2nd most populous city in the San Joaquin Valley.

7. The market value of the property as if completed as at the valuation date was estimated to be USD37,000,000.

8. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's immediate area and are selling between USD825,000-USD1,200,000 and these residences have 4 or 5 bedrooms and 2,200 to 3,900 sq.ft.

9. As advised by Landsea Homes Group, 32 residential townhome units with a total house floor area of approximately 96,309 sq.ft. have been pre-sold to various third parties at a total consideration of USD34,200,773. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

10. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

11. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
10	Neuhouse at East of South Twinkle Ontario California The US	The subject property is a single-family residential subdivision with 144 units of townhome that are owned by LS-Ontario II, LLC. The subject site work has commenced. The total site area of the subdivision is 17.00 acres/740,520 sq.ft. The homes being constructed are 1.5–3 bedrooms with 1,000 to 1,600 sq.ft. on average. Upon completion, the property will contain approximately 185,040 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2027. The total construction cost remaining to complete the subdivision development is USD59,437,824 or USD412,763 per unit.	As at the valuation date, the property was under construction.	15,520,000 (equivalent to HKD121,211,200)

Notes:

1. The owner of the property is LS-Onatario II, LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-Onatario II, LLC owns the 144 lots under fee simple ownership. LS-Onatario II, LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to Owner's statement in the documentation of final record plat, Haven Ontario NMC 2, LLC was recorded as the owner of the subject property. As advised by Landsea Homes Group, as of the valuation date of value Neuhouse subdivision is under the ownership of Haven Ontario NMC 2, LLC; however, LS-Onatario II, LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for residential use.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Grant Deed

   — Final Recorded Plat

5. Location Description — Neuhouse Subdivision is located near Interstates 15, 10, 60, and 91, providing commuters easy access to Los Angeles, Riverside, San Bernadino, and Orange County Employment nodes. The site is approximately 4 miles to LA/Ontario International Airport, a full-service airport with Ontario Mills, the largest enclosed shopping outlet mall and a primary tourist attraction in the Inland Empire, is approximately 5 miles north of the Subject. In addition, the subject property is located within 5 miles to the Eastvale Gateway and Vernola Marketplace, all of which are great destinations for entertainment, shopping, and popular restaurants. Lastly, Haven Marketplace, a brand-new retail center, is only¼-mile south of the Subject. Goodyear has experienced a stronger than typical housing market over the last several years, similar to most housing markets in the US.

6. The market value of the property as if completed as at the valuation date was estimated to be USD86,400,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD482,050 and USD645,100. The concluded USD/home is in consideration of the subject's remaining inventory.

8. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

9. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
11	Placentia at 1580 Lima Way Placentia California The US	The subject property is a single-family residential subdivision with 88 units of townhome that are owned by LS-Placentia, LLC. The subject site work has commenced. The total site area of the subdivision is 5.97 acres/260,053 sq.ft. The homes being constructed are 1–3 bedrooms with 815 to 1,368 sq.ft. on average. Upon completion, the property will contain approximately 89,171 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2025. The total construction cost remaining to complete the subdivision development is USD12,345,117 or USD140,285 per unit.	As at the valuation date, the property was under construction.	40,030,000 (equivalent to HKD312,634,300)

Notes:

1. The owner of the property is LS-Placentia, LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-Placentia, LLC owns the 88 lots under fee simple ownership. LS-Placentia, LLC owns any completed homes under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Grant Deed issued by state of State of California, County of Orange, the land parcel of subject property has been granted to LS-Placentia, LLC witness and recorded by the state of State of California, County of Orange on 29 July 2021.

3. The property is zoned for residential use.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Grant Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The central location of the site provides excellent access to nearby entertainment options including the Anaheim Packing District, Angel Stadium and the Honda Center, Disneyland, Downtown Fullerton, and Old Towne Orange. The sites close proximity to Interstates 55, 57, and 91 will give buyers the ability to easily commute to employment centers throughout the greater Orange and Los Angeles Counties. Nearby travel options include John Wayne Airport, Long Beach Airport, and Los Angeles International Airport (LAX).

6. The market value of the property as if completed as at the valuation date was estimated to be USD64,240,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD650,000 and USD750,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 18 residential townhome units with a total house floor area of approximately 23,033 sq.ft. have been pre-sold to various third parties at a total consideration of USD13,132,125. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
12	VanEyk at 3550 East Pollock Street Ontario California The US	The subject property is a single-family residential subdivision with 9 units of townhome that are owned by LS-Ontario II LLC. The subject site work has commenced. The total site area of the subdivision is 30.34 acres/1,321,610 sq.ft. The homes being constructed are 2–3 bedrooms with 1,300 to 2,000 sq.ft. on average. Upon completion, the property will contain approximately 11,062 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2024. The total construction cost remaining to complete the subdivision development is USD5,119,581 or USD568,842 per unit.	As at the valuation date, the property was under construction.	630,000 (equivalent to HKD4,920,300)

Notes:

1. The owner of the property is LS-Ontario II, LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-Ontario II LLC owns the 9 lots under fee simple ownership. LS-Ontario II, LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to Owner's statement in the documentation of final record plat, Haven Ontario NMC 1, LLC was recorded as the owner of the subject property. As advised by Landsea Homes Group, as of the valuation date of value VanEyk subdivision is under the ownership of Haven Ontario NMC 1, LLC; however, LS-Ontario II, LLC has take down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for residential use.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Grant Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — VanEyk Subdivision is approximately 4 miles to LA/Ontario International Airport, a full-service airport with commercial jet service to major U.S. cities and international destinations. In 2018, China Airlines moved one of its two daily Los Angeles International Airport services to Ontario, California to get closer to ethnically Chinese people living there. Ontario Mills, the largest enclosed shopping outlet mall and a primary tourist attraction in the Inland Empire, is approximately 5 miles north of the Subject. In addition, the subject property is located within 5 miles to the Eastvale Gateway and Vernola Marketplace, all of which are great destinations for entertainment, shopping, and popular restaurants.

6. The market value of the property as if completed as at the valuation date was estimated to be USD5,985,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD650,000 and USD710,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 3 residential townhome units with a total house floor area of approximately 4,289 sq.ft. have been pre-sold to various third parties at a total consideration of USD1,766,231. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
13	Wildera at 7049 East Bushy Tail Ln Pinal Arizona The US	The subject property is a single-family residential subdivision with 461 Units that are owned by LS-San Tan Gateway LLC. The subject site work has commenced. The total site area of the subdivision is 132.58 acres/5,775,185 sq.ft. The homes being constructed are 3–5 bedrooms with 1,500 to 2,500 sq.ft. on average. Upon completion, the property will contain approximately 1,066,785 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD155,702,369 or USD337,749 per unit.	As at the valuation date, the property was under construction.	16,040,000 (equivalent to HKD125,272,400)

Notes:

1. The owner of the property is LS-San Tan Gateway LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-San Tan Gateway LLC owns the 461 lots under fee simple ownership. LS-San Tan Gateway LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to a Special Warranty Deed, the land parcel of subject property has been granted to Arroyo Cap III-2, LLC witness and recorded by the state of Arizona County of Maricopa on 16th August 2022. As advised by Landsea Homes Group, Wildera 1A subdivision is under the ownership of Arroyo CAP III-2, LLC; however, LS-San Tan Gateway LLC has taken down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for CR-3 which single residence were permitted.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The site is located in the SE portion of the Phoenix MSA, an area that has seen growth over the last several years. The subject is approximately 6 miles from The Shops at Copperbasin, a newer outdoor shopping center with regional and national retailers as well as amenities. In addition, San Tan Heights Town Center is approximately 8 miles from the subject. E. Hunt Highway is a primary throughway, connecting this potion of the MSA to central Phoenix. There are several retailers and other services along this highway. Phoenix Sky Harbor International Airport (PHX) is approximately 45 miles form the subject and the commute is 50 minutes and variable depending on traffic.

6. The market value of the property as if completed as at the valuation date was estimated to be USD193,620,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD400,000 and USD450,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by the Landsea Homes Group, there is a Trust with Pinal County that was created versus posting a performance bond, to secure improvements that is associate with the property.

9. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
14	Bentridge at 2979 South 234th Ln Buckeye Arizona The US	The subject property is a single-family residential subdivision with 230 units of townhome that are owned by LS-Bentridge LLC. The subject site work has commenced. The total site area of the subdivision is 63.55 acres/2,768,238 sq.ft. The homes being constructed are 3–6 bedrooms with 1,500 to 3,000 sq.ft. on average. Upon completion, the property will contain approximately 588,298 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD53,648,120 or USD233,252 per unit.	As at the valuation date, the property was under construction.	27,950,000 (equivalent to HKD218,289,500)

Notes:

1. The owner of the property is LS-Bentridge LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-Bentridge LLC owns the 230 lots under fee simple ownership. LS-Bentridge LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed issued by state of State of Arizona, County of Maricopa, the land parcel of subject property has been granted to LS-Bentridge LLC witness and recorded by the state of State of Arizona, County of Maricopa on 15 June 2021.

3. The property is zoned PR-Residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The site is located in the western portion of the Phoenix MSA, an area that has seen growth over the last several years. The subject is approximately 2 miles from Highway 10, connecting this portion of the subject's area to central Phoenix. Sundance Towne Center is located at S. Watson Rd and Highway 10, 1.5 miles north of the subject. This towne center is anchored by a Wal-Mart Supercenter and has many other retailers within this corridor. Costco and other major retailers are approximately 6 miles from the subject. Phoenix Sky Harbor International Airport (PHX) is approximately 35 miles form the subject and the commute is 45 minutes and variable depending on traffic.

6. The market value of the property as if completed as at the valuation date was estimated to be USD100,050,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD400,000 and USD450,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 33 residential units with a total house floor area of approximately 58,169 sq.ft. have been pre-sold to various third parties at a total consideration of USD13,110,079. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
15	North Copper Canyon 3.1&3.2 at 22983 North 183rd Drive Surprise Arizona The US	The subject property is a single-family residential subdivision with 126 units of townhome that are owned by LS-LCF CA, LLC. The subject site work has commenced. The total site area of the subdivision is 51.38 acres/2,238,113 sq.ft. The homes being constructed are 2–6 bedrooms with 1,300 to 3,200 sq.ft. on average. Upon completion, the property will contain approximately 425,099 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD31,912,723 or USD253,276 per unit.	As at the valuation date, the property was under construction.	15,130,000 (equivalent to HKD118,165,300)

Notes:

1. The owner of the property is LS-LCF CA, LLC (a wholly-owned subsidiary of Landsea Homes Group). LS-LCF CA, LLC owns the 126 lots under fee simple ownership. LS-LCF CA, LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to a Special Warranty Deed, the land parcel of subject property has been granted to GWH NCC, LCC witness and recorded by the state of Arizona County of Maricopa on 21 December 2022. As advised by Landsea Homes Group, North Copper Canyon 3.1&3.2 subdivision is under the ownership GWH NCC, LCC; however LS-LCF CA, LLC has taken down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property is zoned for residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The site is located in the NW portion of the Phoenix MSA, an area that has seen growth over the last several years. The subject is less than 1 mile from Highway 60, connecting this portion of the subject's area to central Phoenix. Retailers are located along Highway 60, and Surprise Towne Center is located approximately 6 miles from the subject. This towne center is an outdoor shopping area with national and regional retailers. The Desert Springs Golf Course is 6 miles from the subject. This is an 18-hole, 7,000 yard course. Phoenix Sky Harbor International Airport (PHX) is approximately 42 miles form the subject and the commute is 45 minutes and variable depending on traffic.

6. The market value of the property as if completed as at the valuation date was estimated to be USD55,440,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD420,000 and USD460,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 16 residential townhome units with a total house floor area of approximately 38,207 sq.ft. have been pre-sold to various third parties at a total consideration of USD6,973,905. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
16	North Copper Canyon 3.3 at 23913 North 183rd Drive Surprise Arizona The US	The subject property is a single-family residential subdivision with 104 units of townhome that are owned by Landsea Homes of Arizona LLC. The subject site work has commenced. The total site area of the subdivision is 29.20 acres/1,271,952 sq.ft. The homes being constructed are 3–6 bedrooms with 1,300 to 3,200 sq.ft. on average. Upon completion, the property will contain approximately 280,478 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD22,635,340 or USD217,648 per unit.	As at the valuation date, the property was under construction.	17,900,000 (equivalent to HKD139,799,000)

Notes:

1. The owner of the property is Landsea Homes of Arizona LLC (a wholly-owned subsidiary of Landsea Homes Group. Landsea Homes of Arizona LLC owns the 105 lots under fee simple ownership. Landsea Homes of Arizona LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed issued by state of State of Arizona, County of Maricopa, the land parcel of subject property has been granted to Landsea Homes of Arizona LLC witness and recorded by the state of State of Arizona, County of Maricopa on 28 December 2021.

3. The property is zoned R2 for Residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The site is located in the NW portion of the Phoenix MSA, an area that has seen growth over the last several years. The subject is less than 1 mile from Highway 60, connecting this portion of the subject's area to central Phoenix. Retailers are located along Highway 60, and Surprise Towne Center is located approximately 6 miles from the subject. This towne center is an outdoor shopping area with national and regional retailers. The Desert Springs Golf Course is 6 miles from the subject. This is an 18-hole, 7,000 yard course. Phoenix Sky Harbor International Airport (PHX) is approximately 42 miles form the subject and the commute is 45 minutes and variable depending on traffic.

6. The market value of the property as if completed as at the valuation date was estimated to be USD46,800,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD420,000 and USD460,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 4 residential townhome units with a total house floor area of approximately 9,282 sq.ft. have been pre-sold to various third parties at a total consideration of USD1,737,372. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
17	El Cidro at 17541 W Fulton Street Goodyear Arizona The US	The subject property is a single-family residential subdivision with 263 units of townhome that are owned by LS-Goodyear LLC. The subject site work has commenced. The total site area of the subdivision is 57.30 acres/2,495,988 sq.ft. The homes being constructed are 3–6 bedrooms with 1,700 to 3,045 sq.ft. on average. Upon completion, the property will contain approximately 227,800 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2026. The total construction cost remaining to complete the subdivision development is USD84,994,909 or USD323,175 per unit.	As at the valuation date, the property was under construction.	13,700,000 (equivalent to HKD106,997,000)

Notes:

1. The owner of the property is LS-Goodyear LLC (a wholly-owned subsidiary of Landsea Homes Group. LS-Goodyear LLC owns the 263 lots under fee simple ownership. LS-Goodyear LLC owns any completed homes outright under fee simple ownership. The residential units are marketed for sale to individual home buyers.

2. Pursuant to the Special Warranty Deed issued by state of Arizona, County of Maricopa, the land parcel of subject property has been granted to LS-Goodyear LLC witness and recorded by the state of State of Arizona, County of Maricopa on 26th March 2021.

3. The property is zoned for residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Final Recorded Plat

   — Covenants, Conditions & Restrictions

5. Location Description — The site is located in the western portion of the Phoenix MSA, an area that has seen growth over the last several years. The subject is approximately 4 miles from Highway 10, connecting this portion of the subject's area to central Phoenix. Sundance Towne Center is located at S. Watson Rd and Highway 10, 8 miles northwest of the subject. This towne center is anchored by a Wal-Mart Supercenter and has many other retailers within this corridor. Costco and other major retailers are approximately 8 miles from the subject. Phoenix Sky Harbor International Airport (PHX) is approximately 30 miles form the subject and the commute is 30 minutes and variable depending on traffic.

6. The market value of the property as if completed as at the valuation date was estimated to be USD126,240,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD460,000 and USD500,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8 As advised by Landsea Homes Group, 1 residential townhome units with a total house floor area of approximately 1,939 sq.ft. have been pre-sold to various third parties at a total consideration of USD419,731. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
18	Bargrove at 5294 Obsidian Gate Drive Mt Dora Florida The US	The subject property is a single-family residential subdivision with 123 units that are owned by Landsea Homes of Florida LLC. The subject site work has commenced. The total site area of the subdivision is 23.72 acres/1,033,243 sq.ft. The homes being constructed are 4–5 bedrooms with 2,100 to 4,400 sq.ft. on average. Upon completion, the property will contain approximately 429,872 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2027. The total construction cost remaining to complete the subdivision development is USD43,059,548 or USD350,078 per unit.	As at the valuation date, the property was under construction.	30,580,000 (equivalent to HKD238,829,800)

Notes:

1. The owner of the property is Landsea Homes of Florida LLC (a wholly-owned subsidiary of Landsea Homes group). Landsea Homes of Florida LLC owns the 123 lots under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. Pursuant to a Special Warranty Deed, the land parcel of subject property has been granted to HFB Bargrove, LLC witness and recorded by the state of Arizona County of Maricopa on 21 December 2022. As advised by Landsea Homes Group, Bargrove subdivision is under the ownership HFB Bargrove, LLC; however, Landsea Homes of Florida LLC has taken down schedules with these third party land banks and complete control of planning, development and final acquisition.

3. The property zoned for residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Landbank Option Agreement

5. Location Description — Bargrove Subdivision is located off of US Route 441, just 6 miles north of SR 429, Bargrove Estates puts all of Central Florida within easy reach. Trips to Downtown Orlando take around 30 minutes, and you're only five minutes from historic downtown Mount Dora's quaint outdoor cafes, gourmet restaurants, galleries, shops and more. Community amenities include a playground and an open-field park for recreation or relaxing.

6. The market value of the property as if completed as at the valuation date was estimated to be USD83,025,000.

7. We have identified and analyzed various relevant sale evidence of residential units in the locality which have similar characteristics of the subject property. The selected comparable are located in the subject's area, all within the most competitive area of the subject, with newer developments. These units are selling between USD660,000 and USD690,000.

8. As advised by Landsea Homes Group, 39 residential townhome units with a total house floor area of approximately 137,018 sq.ft. have been pre-sold to various third parties at a total consideration of USD24,953,692. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
19	Hanover Lakes at 4930 Chase Court St. Cloud Florida The US	The subject property is a single-family residential subdivision with 41 units that are owned by HFB Lakes LLC. The subject site work has commenced. The total site area of the subdivision is 5.94 acres/258,746 sq.ft. The homes being constructed are 4–6 bedrooms with 1,700 to 4,400 sq.ft. on average. Upon completion, the property will contain approximately 116,964 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2024. The total construction cost remaining to complete the subdivision development is USD6,985,433 or USD170,376 per unit.	As at the valuation date, the property was under construction.	6,740,000 (equivalent to HKD52,639,400)

Notes:

1. The owner of the property is HFB Lakes LLC (is a wholly-owned subsidiary of Landsea Homes group). HFB Lakes LLC owns the 41 lots under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. The property zoned for residential.

3. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Contract for Sale and Purchase

4. Location Description — Hanover Lakes subdivision is located at St. Cloud, Florida. The site offers a convenient location close to Walt Disney World® Resort, Universal Studios Florida and SeaWorld® Orlando. Some of the most beautiful beaches of the East Coast are close at hand, and expressways make Downtown Orlando's sports and cultural venues easily accessible.

5. The market value of the property as if completed as at the valuation date was estimated to be USD25,420,000.

6. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD600,000 and USD630,000. The concluded USD/home is in consideration of the subject's remaining inventory.

7. As advised by Landsea Homes Group, 8 residential townhome units with a total house floor area of approximately 24,610 sq.ft. have been pre-sold to various third parties at a total consideration of USD4,397,343. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

8. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

9. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
20	Trinity Lakes at 7104 Dilly Lake Ave Groveland Florida The US	The subject property is a single-family residential subdivision with 207 units that are owned by HFB Trinity Lakes, LLC. The subject site work has commenced. The total site area of the subdivision is 29.51 acres/1,285,456 sq.ft. The homes being constructed are 3–5 bedrooms with 1,300 to 4,400 sq.ft. on average. Upon completion, the property will contain approximately 570,545 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2024. The total construction cost remaining to complete the subdivision development is USD56,433,138 or USD272,624 per unit.	As at the valuation date, the property was under construction.	26,400,000 (equivalent to HKD206,184,000)

Notes:

1. The owner of the property is HFB Trinity Lakes, LLC (is a wholly-owned subsidiary of Landsea Homes group). HFB Trinity Lakes, LLC owns the 207 lots under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. Pursuant to the Grant Deed issued by state of State of Florida, County of Orange, the land parcel of subject property has been granted to HFB Trinity Lakes, LLC witness and recorded by the state of State of Florida, County of Orange on 27 June 2023.

3. The property zoned for residential.

4. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

   — Contract For Sale and Purchase

5. Location Description — Trinity Lakes subdivision is a beautiful new lakefront community in Groveland, Florida, offering a modern, amenity-rich lifestyle. The subject property enjoy the scenic walking trails or the lakeside park with dock and waterfront pavilion. It is approximately 30 minutes drive to Florida's Turnpike, which it can access to most of the public amenities in the area.

6. The market value of the property as if completed as at the valuation date was estimated to be USD99,360,000.

7. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD400,000 and USD485,000. The concluded USD/home is in consideration of the subject's remaining inventory.

8. As advised by Landsea Homes Group, 33 residential townhome units with a total house floor area of approximately 89,621 sq.ft. have been pre-sold to various third parties at a total consideration of USD16,013,001. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

9. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

10. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
21	Ridgeview at 7504 Catania Loop Clearmont Florida The US	The subject property is a single-family residential subdivision with 139 units that are owned by HFB Ridgeview LLC. The subject site work has commenced. The total site area of the subdivision is 18.68 acres/813,701 sq.ft. The homes being constructed are 4–5 bedrooms with 1,800 to 4,400 sq.ft. on average. Upon completion, the property will contain approximately 418,348 sq.ft. of house floor area. As advised by the Landsea Homes Group, the property is scheduled to be completed in 2024. The total construction cost remaining to complete the subdivision development is USD37,295,668 or USD268,314 per unit.	As at the valuation date, the property was under construction.	33,150,000 (equivalent to HKD258,901,500)

Notes:

1. The owner of the property is HFB Ridgeview LLC (a wholly owned subsidiary of Landsea Homes group). HFB Ridgeview LLC owns the 139 lots under fee simple ownership. The lots will have residences constructed that are marketed for sale to individual home buyers.

2. The property zoned for residential.

3. A summary of critical permits and approvals associated with the rights to develop the property that are obtained is as below:

   — Special Warranty Deed

— Contract For Sale and Purchase

— Final Recorded Plat

4. The market value of the property as if completed as at the valuation date was estimated to be USD91,740,000.

5. Location Description — Ridgeview subdivision is a stunning new community in Clermont, Florida. The community is directly on US27 with SR429 (Western Beltway) nearby, putting all of Central Florida within easy reach. Located among the rolling hills and scenic vistas of Lake County, Ridgeview's community boasts resort-style amenities, including a community pool, cabana, playground and nearby Olympus Sports Complex, which is currently under development just north. Situated directly across from Lake Louisa State Park.

6. We have identified and analyzed various relevant sale evidence of residential homes in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's subdivision, as homes have been completed and sold to individual home buyers. These homes have a wide range of selling price points, with a wide range of home sizes, are selling between USD600,000 and USD700,000. The concluded USD/home is in consideration of the subject's remaining inventory.

7. As advised by Landsea Homes Group, 43 residential townhome units with a total house floor area of approximately 143,917 sq.ft. have been pre-sold to various third parties at a total consideration of USD26,520,947. Transaction of such portions of the property have not been closed as at valuation date and therefore we have included the units in our valuation.

8. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

9. The subject property is in fee simple ownership which is under perpetual ownership status and there is no ground/government rent associated the property.

VALUATION CERTIFICATE

Group II — Property interest held for sale by Landsea Homes Group in the US

No.	Property	Description	Particulars of occupancy	Market value in existing state as at the valuation date *USD*
22	Forena Condominiums at 540 Sixth Avenue New York City New York The US	The building containing the subject property is situated on a parcel with a site area of approximately 8,428 sq.ft. The larger development containing the subject property is a 12-story mid-rise tower that was completed in 2022 with a total gross floor area of approximately 72,028 sq.ft. The subject property is comprised of 2 unsold condominium apartments within a larger condominium facility, a retail component that is and 2 storage units with a total GFA of 15,358 sq.ft., of which 3,858 sq.ft. is the condominium and 11,500 sq.ft. is the commercial portion of the subject property. All subject property is held under fee simple interest and is owned by LS — 14 AVE LLC.	The property was vacant as of valuation date.	23,470,000 (equivalent to HKD183,300,700) (Interests Attributable to Landsea Homes (96%): USD22,531,000, equivalent to HKD175,968,700)

Notes:

1. According to information (Document No. 2018000308511 dated 12 February 2018) provided by Landsea Homes, the owner of the property is LS — 14 AVE LLC. (a 96% owned subsidiary of Landsea Homes).

2. Pursuant to a secured property tax bill accounting record (2022–23), LS-14 AVE LLC is stated as the owner of the subject property.

3. The subject site is zoned in the contextual general central commercial zoning district which allows for residential, commercial and community facility uses.

4. Location Description — The subject property is located on the northeasterly corner of West 14th Street and Sixth Avenue, in the Flatiron neighborhood of Manhattan, in Community District 5. The subject property is conveniently located within a diverse area of Manhattan containing multifamily, office, retail, hotel and cultural attractions. The subject has above average access to mass transportation and is considered a desirable residential and commercial location.

5. We have identified and analyzed various relevant sale evidence of residential, retail and storage units in the locality which have similar characteristics of the subject property such as layout, size and condition. The selected comparable are located in the subject's immediate area and have a average selling price of USD375,000 per unit for condominium, USD1,540 per sq.ft. for commercial space and USD50,000 per unit for storage.

6. We are not aware of any Easements, Encumbrances or CC&R's that would negatively impact valuation conclusions.

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)*	58.35%
	Beneficial owner	8,901,500	0.19%
Mr. Huang Zheng	Beneficial owner	25,000,000 *(Note 3)*	0.52%
Ms. Gu Jing	Beneficial owner	36,000	0.00%

Notes:

1. These include (i) 2,011,513,187 Shares held through Greensheid Corporation ("**Greensheid**"); (ii) 376,017,785 ordinary shares held through Easycorps Group Limited ("**Easycorps**"); and (iii) 367,914,894 ordinary shares held through Landsea International Holdings Limited ("**Landsea International**").

2. Greensheid is wholly-owned by Landsea International, which is in turn wholly owned by Landsea Group Co., Ltd. ("**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 Co., Ltd. *(Note 1)*	Long position	Interest in controlled corporation	2,379,428,081	50.39%
Landsea International *(Note 1)*	Long Position	Interest in controlled corporation	2,011,513,187	42.60%
		Beneficial interest	367,914,894	7.79%

Name of Shareholders	Long Position/ Short Position	Capacity	Number of Shares held	Approximate percentage in total number of issued Shares
Nanjing Ding Chong *(Note 1)*	Long Position	Interest in controlled corporation	2,379,428,081	50.39%
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	Beneficial interest	327,002,604	6.92%
	Short position	Beneficial interest	327,002,604	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 ordinary shares held through Greensheid and 367,914,894 ordinary 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 Ming ("**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 ordinary 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 ordinary shares beneficially owned by Mr. Ting Wang ("**Mr. Ting**") and 78,768,335 ordinary 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 2022 (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 management 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 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;

(ii) 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;

(iii) 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;

(iv) the credit agreement dated 12 May 2022 (the "**Credit Agreement**") entered into between LHC as borrower, and 1103849 B.C. LTD. as lender, pursuant to which the lender conditionally agreed to provide a loan in a principal amount of US$45,000,000 to the borrower under the terms and conditions of the Credit Agreement;

(v) 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;

(vi) the stock purchase agreement dated 31 May 2022 entered into by LHC and Green Investment Alpha Limited in relation to the proposed disposal of 4,838,710 shares of LSEA Stock for a total consideration of US$45,000,000;

(vii) the put option agreement dated 31 May 2022 entered into by LHC and Green Investment Alpha Limited pursuant to which Green Investment Alpha Limited shall have the right, but not obligation, to cause LHC to purchase all or a portion of 4,838,710 shares of LSEA Stock at a price of US$9.30 per each share of LSEA Stock;

(viii) 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;

(ix) 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;

(x) 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;

(xi) the agreement dated 25 August 2022 entered into between, among others, 上海朗昆企業管理有限公司 (Shanghai Langkun Business Management Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, as vendor, and 北京融匯嘉智投資管理中心(有限合夥) (Beijing Ronghui Jiazhi Investment Management Center (Limited Partnership)*) and 廈門嘉晟融懋管理諮詢有限公司 (Xiamen Jiasheng Rongmao Management Consulting Co. Ltd.*) as purchasers, in relation to the sale and purchase of 50% equity interest in 上海融懋商業管理有限公司 (Shanghai Rongmao Commercial Management Co., Ltd.*) at a total consideration of RMB137,575,942.05;

(xii) the agreement dated 24 October 2022 entered into by and among 上海朗緒企業管理諮詢有限公司 (Shanghai Langxu Enterprise Management Consultancy Company Limited*), an indirect wholly-owned subsidiary of the Company, as vendor, 南京朗銘地產集團有限公司 (Nanjing Langming Property Group Limited*) and 上海朗青投資管理有限公司 (Shanghai Langqing Investment Management Limited*) as vendor guarantors, and LAO VI CN Company VI Pte. Ltd. as purchaser in relation to the sale and purchase of 100% equity interest in 上海朗松實業有限公司 (Shanghai Langsong Enterprises Company Limited*) at an initial consideration of RMB102,489,655.35, subject to adjustments; and

(xiii) the underwriting agreement dated 12 June 2023 (New York Time) entered into by LHC, Landsea Homes and B. Riley Securities, Inc. (being the representative of the underwriters) in relation to the disposal(s) by LHC of a total of 3,400,000 shares of LSEA Stock at a public offering price of US$7.5 per share of LSEA Stock, for an aggregate consideration of US$25,500,000 and the repurchase of the an aggregate of 443,478 shares of LSEA Stock by Landsea Homes.

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. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants
AOGB CPA Limited	Certified public accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer

As at the Latest Practicable Date, each of the above experts did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of the above experts was not interested beneficially or non-beneficially in any Shares in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it respectively appears.

10. 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 406, 4/F., 8 Queen's Road East, Wan Chai, Hong Kong.

(c) Ms. Gao Yuan ("**Ms. Gao**") is the company secretary of the Company. Ms. Gao was appointed as company secretary and authorized representative of the Company on 30 December 2022. Ms. Gao is a fellow member of The Hong Kong Chartered Governance Institute. She is also a Chartered Secretary, a Chartered Governance Professional, a Certified Management Accountant (CMA) and a Chartered Financial Analyst (CFA) Charterholder.

(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.

11. 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 written consents referred to in the paragraph headed "Experts" in this Appendix;

(b) the reconciliation of Landsea Homes' financial information for the differences between its accounting policies under US GAAP and the accounting policies of the Company under HKFRS as set forth in Appendix II to this circular;

(c) the report on the unaudited pro forma financial information of the Group as set out in Appendix IV to this circular;

(d) the valuation report issued by independent valuer in respect of the properties as set out in Appendix V to this circular; and

(e) this circular.

朗诗绿色管理
LANDSEA GREEN MANAGEMENT

LANDSEA GREEN MANAGEMENT LIMITED

朗 詩 綠 色 管 理 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 106)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Landsea Green Management Limited (the "**Company**") will be held at Landsea Green Center, Building 5, Lane 280, Linhong Road, Changning District, Shanghai, China, on Thursday, 29 February 2024 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions of the Company:

"**THAT**

(a) the disposals (the "**Disposals**", each a "**Disposal**") by the Company and/or its subsidiaries (collectively the "**Group**") in tranches (i) in the open market on National Association of Securities Dealers Automated Quotations capital market ("**NASDAQ**") to independent third parties through the trading system of NASDAQ; (ii) through underwritten offering or placing by investment banks to independent third parties; and/or (iii) in the off-market through block trades by entering into placing agreements with placing agents, to dispose of the shares of the common shares ("**LSEA Stock**") of Landsea Homes Corporation ("**Landsea Homes**"), a company incorporated under the laws of the State of Delaware in the United States of America and the common stock of which are listed on NASDAQ to third party purchaser(s), who and whose ultimate beneficial owner(s) are independent third parties, of up to 4,800,000 shares of the common shares ("**Approved Sale Shares**") of Landsea Homes during the period of 6 months from the date of passing of this resolution (the "**Relevant Period**") be and are hereby approved subject to the following conditions:

(i) each Disposal through underwritten offering or placing by investment banks to independent third parties or in the off market shall be at market price of no more than 20% discount to the average of the closing price as quoted on NASDAQ for the five (5) consecutive trading days immediately before the date of each Disposal during the Relevant Period; and

(ii) the minimum selling price of each Disposal shall be no less than the Minimum Selling Price, being US$9.35 per share of LSEA Stock; and

(b) any directors of the Company (the "**Directors**") be and are hereby authorized and empowered to determine, decide, execute and implement with full discretion all matters relating to the Disposals from time to time during the Relevant Period, including but not limited to, the number of batches of disposals, the number of Approved Sale Shares to be sold in each disposal, the timing of each disposal, the manner of disposal or sales in the open market or in the off market, the target purchasers, and the selling price (subject to the parameters set out above) and to do all such acts and things, including but not limited to, execution of all documents which the Directors deem necessary, appropriate or desirable to implement and give full effect to the Disposal and the transactions contemplated thereunder or in connection with the exercise of the Disposal."

By Order of the Board of
Landsea Green Management Limited
Tian Ming
Chairman

Hong Kong, 9 February 2024

Notes:

1. For the purpose of determining the identity of the shareholders of the Company entitled to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 27 February 2024 to Thursday, 29 February 2024, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 February 2024.

2. Any member of the Company entitled to attend and vote at the meeting convened by this notice shall be entitled to appoint one or more proxies to attend and vote in his stead in accordance with the Bye-Laws of the Company. A proxy need not be a member of the Company but must be present in person to represent the member.

3. A form of proxy for use at the meeting is enclosed.

4. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof should they so wish.

5. In case the venue is being closed on the date of meeting due to bad weather, the meeting shall stand adjourned and at such time and place as shall be decided by the Board. The Company will post an announcement on the Stock Exchange and the Company's website notifying Shareholders of the date, time and place of the adjourned meeting.

6. As at the date of this notice, the Board comprises two executive Directors, namely Mr. Tian Ming and Mr. Huang Zheng, one non-executive Director, namely Ms. Gu Jing, and three independent non-executive Directors, namely Mr. Xu Xiaonian, Mr. Chen Tai-yuan and Mr. Rui Meng.