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**ANALYSIS OF CHINESE REAL ESTATE
FOLLOW-UP INVESTMENT OPERATION
EFFECT AND MECHANISM**

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SINGAPORE MANAGEMENT UNIVERSITY

2021

**ANALYSIS OF CHINESE REAL ESTATE
FOLLOW-UP INVESTMENT OPERATION
EFFECT AND MECHANISM**

HE YINYU

Submitted to Lee Kong Chian School of Business
in partial fulfillment of the requirements for the
Degree of Doctor of Business Administration

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2021

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I hereby declare that this PhD dissertation is my original work
and it has been written by me in its entirety.

I have duly acknowledged all the sources of information
which have been used in this dissertation.

This PhD dissertation has also not been submitted for any degree
in any university previously.

A handwritten signature in black ink, consisting of three characters: '贺', '音', and '宇'. The signature is written in a cursive style and is positioned above a horizontal line.

HE Yinyu

12 May 2021

ABSTRACT

ANALYSIS OF CHINESE REAL ESTATE FOLLOW-UP INVESTMENT OPERATION EFFECT AND MECHANISM

HE YINYU

Follow-up investment system has become a fundamental system for the development of most real estate development enterprises. In the upward cycle of real estate, follow-up investment based incentive mechanism is of great importance for performance growth of real estate development enterprise. However, real estate development enterprises lack a relatively mature model to effectively build a follow-up investment system. While building a follow-up investment system, most real estate development enterprises find a benchmark object and copy it mechanically.

The author explored the basic implementation status of follow-up investment system of Chinese real estate enterprises through 310 questionnaires survey, interview and literature research on 101 among China's top 500 real estate enterprises, comprehensively analyzed and optimized follow-up investment system through case study and tried to provide a referable basic system model for the real estate industry.

To be specific:

- (1) Entrance mechanism for follow-up investment of real estate enterprises

includes selection of follow-up investor, follow-up investment amount and follow-up investment operation platform: Mandatory follow-up investor mainly includes top management of enterprise headquarter, city enterprise and project company; follow-up investment amount (including leverage limit) is often limited to 10% of maximum project fund; the higher level is the larger follow-up investment amount is. Low-income employees have a low follow-up investment amount and most follows up the investment voluntarily. Follow-up investment is realized through business partnership shareholding platform architecture. In the downward cycle of real estate, we should try to reduce mandatory follow-up investment amount and relieve pressure on core employees.

(2) Return mechanism for follow-up investment of real estate enterprises: Return frequency, amount and ratio are the key to design the return mechanism. The principal is mainly returned 2-4 times on the condition that the project company has positive operational cash flow and returns 50% of the principal to the follow-up investment company within 30 days with operating expenditure of the coming 6 months reserved.

(3) Profit sharing mechanism for follow-up investment of real estate enterprises mainly includes profit sharing condition, time node and frequency. Profit sharing condition: Profit should be shared 2-4 times in advance and formally. Conditions for sharing profits in advance: First, operational cash flow of project is positive; second, net profit is positive; third, sales rate of project reaches up to 90%. Then, profit

should be shared formally by two steps according to project yield upon settlement.

(4) Leverage and bottoming mechanism for follow-up investment of real estate enterprises: There is a big difference in bottoming and leverage of real estate enterprises. However, the basic logic is: Level should often be 2-4 times. In the upward cycle of the real estate market, follow-up investment should be provided with leverage. However, high turnover does not exist and the principal can hardly be returned in the downward cycle, so leverage is unnecessary. Bottoming is necessary in the upward cycle but unnecessary in the downward cycle of real estate.

The primary purpose of follow-up investment is to achieve high turnover of project development. For this reason, the author found from case analysis that the precondition was to standardize operation, product and service and the fundamental guarantee was to optimize and improve evaluation, compensation and incentive systems, which were closely connected to the implementation of follow-up investment system.

(1) The essence of quick turnover is to improve capital usage efficiency, which requires quick land acquisition, quick construction, quick sale and quick return.

(2) To realize “quick land acquisition, quick construction, quick sale and quick return”, standardization is needed: Including operation standardization, product standardization and service standardization. That is, standardize land acquisition, orientation, product, cost, purchase, implementation, marketing, handover and

property service and accelerate green fast channel of project development.

(3) In the meantime of operation standardization, investment risk and operation cost of project should be controlled, which relies on team, especially team leader's ability and work efficiency. Therefore, the core of realizing quick turnover and implementing the follow-up investment system is to maximize the value of people, improve talent competition, evaluation and incentive systems, build a collaborative, efficient and competitive team, improve efficiency and achieve organizational goals and individual goals.

Keywords: Real estate, follow-up investment, profit sharing, leverage, incentive

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CHAPTER 1. Introduction

1.1 Research Background and Significance

1.1.1 Research Background

1.1.1.1 Analysis of Development Status of Chinese Real Estate Industry

Presently, the development environment of China's real estate industry is changing drastically.

In terms of political environment, government introduces intensive policies on real estate price regulation. Since 2012, real estate price index has increased by below 16.2% in China and had negative growth in 2015. From 2016 to 2018, with destocking of third and fourth-tier cities and purchase and loan limitations of big cities due to frequent change in real estate policy, purchase and sales were restricted. It was mentioned in reports of the 19th National Congress of the Communist Party of China, "China's economy has entered a high-quality development stage from a high-speed growth stage"; it was pointed out in the Central Economic Working Conference in December, 2017, "High-quality development is the fundamental requirement for setting economic policy and implementing macro-control"; it was stressed again in the Central Economic Working Conference in December, 2018, "We should

persistently promote high-quality development”^①.

In terms of economic environment, since 2007, China’s economic growth rate has declined slowly with GDP growth rate falling from above 10% to about 6.5% and entered a steady growth stage, inflation has remained stable gradually and marginal income of the real estate industry has started to decrease. According to statistics of CSMAR database, as shown in Fig. 1.1, Operating profit ratio of the real estate industry declined from 41.91% in 2012 to about 33.88% in 2018 with a decrease rate up to 8%. In 2017, operating profit ratio started to increase slightly due to sustained high premium, selling upturn, favorable financing environment and management level improvement. Decrease in operating profit ratio indicated that China’s real estate industry entered “the silver age” from “the golden age”, traditional profit model had a fundamental change and profitability of the real estate industry focused more on operating capacity of enterprise.

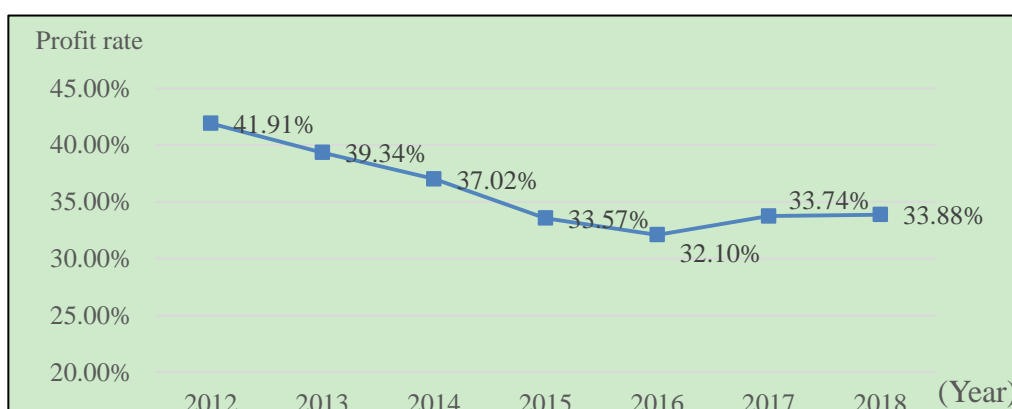


Fig. 1.1 Variation trend of operating profit ratio of the real estate industry from 2012 to 2018

^① Source: *The Central Economic Working Conference was held and President Xi Jinping and Premier Li Keqiang delivered important addresses*-Xinhuanet.
http://www.xinhuanet.com/fortune/2017-12/20/c_1122142392.htm

Data source: CSMAR database

In the current economic environment, real estate enterprises have a significant Matthew Effect. In the horizontal angle, the market share of top 10 and top 50 real estate enterprises increases consecutively from 2012 to 2018, as shown in Fig. 1.2. Although sales of top 10 real estate enterprises decreased from 2017 to 2018, sales of top 50 real estate enterprises accounted for 56.35% of the industry. Data showed a sustainable growth of the concentration ratio of China's real estate industry.

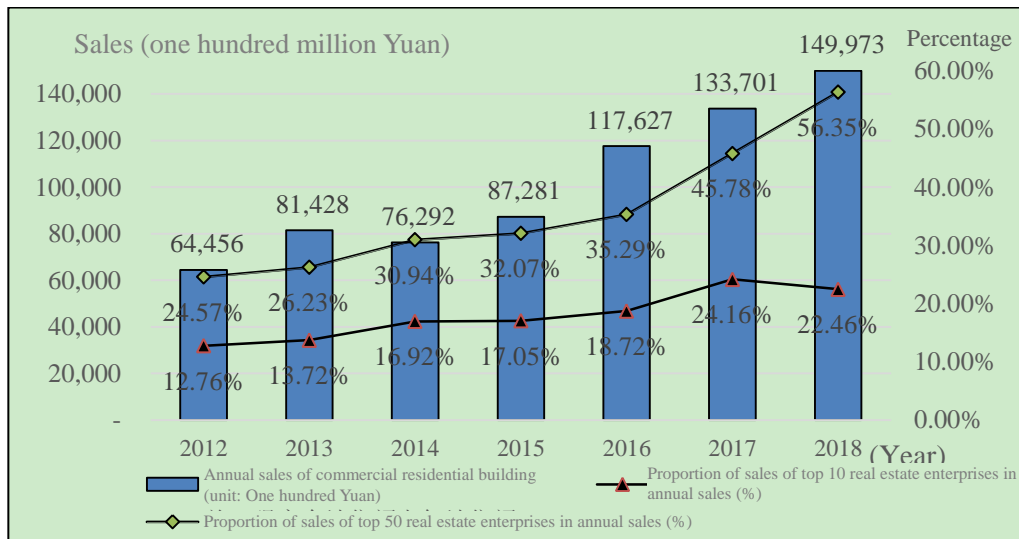


Fig. 1.2 Market share of top 10 and top 50 real estate enterprises from 2012 to 2018
Data source: RESSET and Wind databases

In the longitudinal angle, as shown in Fig. 1.3, sales threshold of real estate enterprises kept increasing from 2012 to 2018 with the entry threshold of top 10 reaching up to one hundred billion Yuan in 2016 and breaking 200 billion Yuan in 2018 and the entry threshold of top 20 reaching up to one hundred billion Yuan in 2018. Data showed an increasing need for scale

expansion of real estate enterprise.

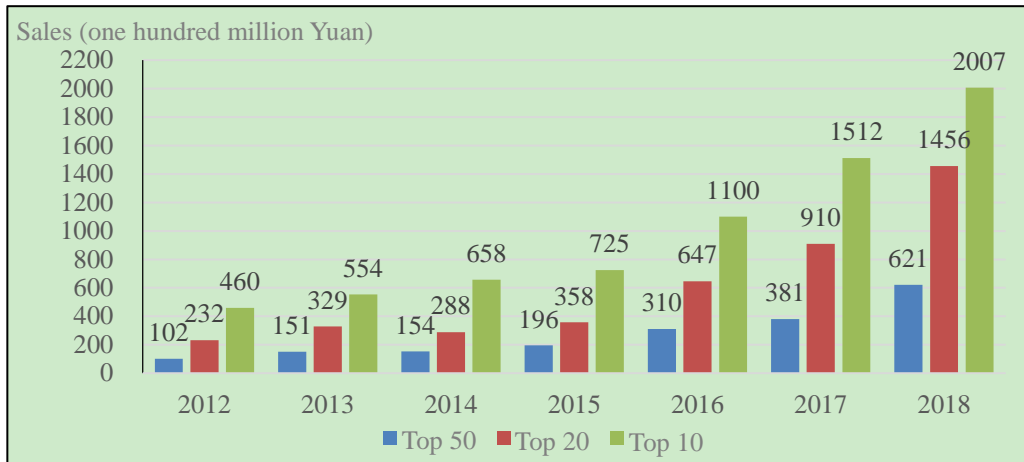


Fig. 1.3 Sales threshold of real estate enterprise (top 10, top 20 and top 50)
Data source: RESST and Wind databases

In terms of social environment, social thought changed gradually, customer demand became diversified and information gradually turned transparent with the development of internet technology. In terms of technical environment, new technologies and new modes such as “Internet+” and “IoT” have been applied to the real estate industry and have had certain influence on business model of the real estate industry^①. Under the aforesaid external environments, enterprise needs to improve the organization structure in order to adapt to the increasingly complex and changeable external market environment more stably and flexibly.

1.1.1.2 Defect Analysis of Traditional Management Mode

Facing the dramatically changing market environment, traditional risk

^① Source: *External Environment Analysis of Real Estate Industry*. Baidu Library.
<https://wenku.baidu.com/view/e523591f14fc700abb68a98271fe910ef12dae67.html>

evading mechanisms of real estate enterprise can hardly adapt to current developmental need^①. In the stable and gentle market environment, real estate enterprise often avoided risks through “headquarter command and front-line execution”. With drastic change in the market environment, headquarter decision lags and it is hard to master the market environment accurately, so decision may be delayed and inaccurate and consequently losses may be caused.

With regard to incentive system of enterprise, the external environment of traditional real estate development is relatively stable and business objectives are relatively clear under the fixed strategic development framework. In this case, enterprises and employees set very different performance objectives, performance management model can hold organizational objectives and consensus together, and team can achieve business objectives easily. Nevertheless, enterprise development goals and employees’ individual goals become more inconsistent and uncertain with change in economic environment and policy environment, and the “Matthew Effect” of the real estate industry requires change of the incentive system to satisfy the need for expansion. Hence, even though traditional performance management model can provide a routine driving force, business objectives will deviate heavily if final achievement is measured by performance

^① Source: Mingyuan Real Estate Research Institute. [2018]. *Follow-up Investment Trend: Follow-up Investment Trend of Real Estate Industry and Practice of Typical Real Estate Enterprises*. China Citic Press.

appraisal only. If core talent has no residual claim but becomes remaining gainer and incentive system remains to be improved, middle managers and ordinary employees will lack motivation and creativity and consequently enterprise cannot maximize the efficiency and create more values. Based on this, traditional real estate enterprise must consider how to encourage core talents to give their subjective initiative into full play and continuously create value for enterprise while adjusting the organization structure.

1.1.2 Research Significance

1.1.2.1 Theoretical Significance

(1) Improve follow-up investment system for real estate project. As is mentioned above, existing follow-up investment system for real estate project has many shortcomings, but there are few researches at home and abroad. On one hand, most researches analyze advantages and disadvantages of a follow-up investment system in the form of case analysis and with an enterprise as a research sample; on the other hand, most researches are carried out based on crowdfunding development model and follow-up investment system is not studied concretely. The author tries to discuss how to improve follow-up investment system on the whole and study period, scope, bottoming mechanism and leverage of follow-up investment system.

(2) Crowdfunding development model is originated from western countries, while follow-up investment system is a type of crowdfunding

development model and is rarely studied in China. This paper studied follow-up investment system for real estate project under China's national condition and combined with development characteristics of Chinese real estate enterprise, which not only enriched researches on follow-up investment system for real estate project, but also provided a theoretical basis for the application of follow-up investment system in other industries.

(3) Follow-up investment system for real estate project, as an incentive policy on the management, involves agency theory, broker theory, expectation theory, equity theory and team production theory. Therefore, this research can enrich the aforesaid theories and provide certain references for solving principal-agent problems of enterprise.

1.1.2.2 Practical Significance

(1) Provide certain references for the development of real estate enterprise. China's real estate market features late start, short development history and unsound market mechanism. On account of China's current economic development environment, many middle and small-sized developers face the difficulty in loan and the problem of high loan cost, except a few large real estate enterprises such as Poly, Vanke and Evergrande. Meanwhile, nonstandard development of China's real estate industry increases the difficulty in risk control of financial institutions objectively and the capital risk control cost will be shifted to developers. Therefore, the implementation

of follow-up investment system for real estate project is conducive to solving the difficulties confronted by real estate enterprises. This research is intended to establish a complete set of follow-up investment systems for real estate project in order to provide certain references for the development of Chinese real estate enterprises.

(2) Provide certain references for the improvement of talent incentive mechanism of real estate enterprise. Presently, China's real estate industry has entered "the silver age" and net assets income rate and attractiveness of the industry decline. Human resource, land resource and capital resource has become the key for sustainable development of real estate enterprise. It is easier to seek land and capital, but excellent talent becomes scarce resources of the market. Real estate follow-up investment mode can change professional manager into business partner and employee into shareholder^① so that employee and enterprise form a community of profit, undertaking and common future. This paper studied real estate follow-up investment mode in the perspective of enterprise efficiency and risk control and summarized how to effectively retain talents combined human resource and employee motivation in the process of enterprise design and real estate follow-up investment mode application.

(3) Enrich investment channel of external investor. With a late start,

^① Source: Xu Yilin. *Research Report on Vanke's Business Partnership Model*. Baidu Library
https://wenku.baidu.com/view/c8a723b9504de518964bcf84b9d528ea81c72f89.html?fr=search-1-wk_sea_esX-income7&fixfr=TGa6qXZ93EfQn7QYBzmaLA%3D%3D

China's financial market has investment methods mainly including real estate and stock. Relatively to other investment methods, the real estate industry has a high ROI. However, traditional real estate investment threshold is high and "inseparable" physical property of building impedes the securitization process and real estate turnover and transaction. The author figured out external investment and risk points to be noted and drew conclusions on how to guarantee investment income through quantitative analysis of real estate follow-up investment mode in order to provide a new high-quality investment channel for investment in the real estate industry.

1.2 Literature Review

1.2.1 Partnership System Research Status

1.2.1.1 Partnership System Foundation

Partner refers to organizations and individuals who build a partnership through investment and enter into a partnership. As the main body of partnership, partner can be classified into limited partner and general partner. Limited partner refers to natural persons that make contributions by currency, land and intellectual property or other properties instead of labor service and assumes the responsibility for enterprise debt according to ratio of

contributions^①. General partner, as the founder of enterprise, makes contributions by fund, land, intellectual property and labor service and assumes unlimited joint and several liability for enterprise.

Main differences between limited partner and general partner are shown in Table 1.1:

Table 1.1 Comparison of limited partner and general partner

Category	Limited partner	General partner
Responsibility for debt	Assume corporate responsibility according to ratio of contributions	Assume unlimited joint and several liability for enterprise
Ways of investment	Invest by currency, material object, land and other intellectual property rights instead of “labor service”, unable to participate in business management.	Invest by currency, material object, land and labor service, able to participate in business management.
Transfer of property	Notify partners of matters concerning transfer of property 30 days in advance as agreed	Partners’ permission must be obtained
Transaction	Less behavior restrictions, higher freedom	Satisfy the agreement concluded before entering a partnership or obtain the permission of all partners
Withdrawal	Withdraw as agreed, not to assume corporate responsibility after withdrawal	All partners’ permission must be obtained, assume unlimited joint and several liability for enterprise after withdrawal

Two different types of partner have their own advantages and disadvantages and enterprise may cooperate with general partner for the purpose of long-term development and limited partner to gain a lot of

^① Source: *What is corporate partner*. Findlaw.cn.

<https://china.findlaw.cn/gongsifalv/hhqyf/hehuoren/shimeshihehuoren/1447727.html>

investments in the short run and ensure decision-making and control power.

Partnership can be divided into limited partnership and general partnership according to identity of partner.

Limited partnership consists of general partner and limited partner. According to hard-and-fast rules for general partner quantity, limited partnership consists of at least a partner and limited partner and 2-50 limited partners. General partner of limited partnership assumes unlimited joint and several liability and other limited partners assume limited liability according to ratio of contributions.

General partnership consists of two or more general partners and every general partner should assume unlimited joint and several liability.

Similar to the difference between limited partner and general partner, limited partnership is mainly different from general partnership in corporate responsibility. Besides, general partnership has more freedom in profit distribution. Profits can be distributed according to ratio of contributions or as per the agreed distribution scheme or equally with the consent of all partners; while profits of limited partnership must be distributed according to rules, regulations and schemes before a partnership is formed and cannot be distributed in other ways^①.

From the point of modern business, partnership system refers to that two

^① Source: *Identify conversion of general partnership and limited partnership in limited partnership.*
<https://www.chinaacc.com/>

or more partners jointly make contributions, build enterprises, assume business risks and share profits. Partner is shareholder of enterprise and partner's income is closely related to operating condition of partnership. In order to gain more benefits, partner must give full play to their intelligence and wisdom to solve the problems of enterprise in order to make profits. Partnership system is built based on building corporate structure and it mainly different from partnership that partnership is built on agreement and mainly reflects organizational form of enterprise; while partnership system mainly stresses an institutional arrangement under organizational form. With change in social system and business management model, partnership is no longer limited to the founder of enterprise but expands to managers and employees of an entire enterprise, and consequently it is implemented from an organizational level to an individual level and forms partnership system.

Many scholars carry out researches on type of partnership system of enterprise:

Zhao Xing (2015) divided partnership system of existing enterprise into three modes: Limited partnership mode which was run by professionals and in which human capital triggers physical capital; partnership mode aimed at controlling company and inheriting corporate culture; partnership mode aimed at motivating employees and front-line vigor;

Liu Guangyu (2016) included Haier "Micromaker" mechanism in partnership mode, namely: Innovative platform partnership mode making the

best use of talents. Most enterprises adopted limited partnership mode which was run by professionals and in which human capital triggers physical capital. Partnership is classified into general partner (GP) and most of them are high-quality professionals of the industry, invest a little and are responsible for business management. Limited partner (LP), as main contributor, does not participate in business management, has abundant social resources and are able to coordinate social resources of enterprise and help with enterprise development. Enterprise that adopts innovative platform partnership mode making the best use of talents mainly builds a supporting platform, on which partner leads to build a business team, is able to make decisions independently and assume sole responsibility for their profits or losses, has full decision-making power of project and enjoys considerable project benefits.

Partnership mode aimed at controlling company and inheriting corporate culture is adopted by enterprises mainly based on characteristics of governance model, such as board member of partner nomination system of Alibaba and JD AB stock system;

Partnership mode aimed at motivating employees and front-line vigor is mainly adopted by traditional enterprises “seeking change”. For example, follow-up investment system for real estate project of Vanke intends to improve engagement of key employees through partnership system in order to motivate vigor of organization;

There are different types of partners due to different types of partnership

businesses. For example, Alibaba's partnership system classifies partner into permanent partner, general partner and honorary partner; Vanke divides partner into shareholder partner, business partner and event partner. Zheng Zhiliang and Lv Yongfeng (2017) also classified partner into shareholder partner, business partner and ecological chain partner, among which business partner was similar to project follow-up investment partner of Vanke and enterprise made contributions by business units of independent accounting such as business, project and area and shared profits together with employees who participated in these business units. Ecological chain partner included supplier, customer and investor. For example, upstream and downstream firms of the industry chain such as construction organization of engineering project made a proportion of follow-up investment in the projects involved.

Li Han (2015) classified partner into graded partner and classified partner. Graded partner was most applicable to platform-based company featuring business diversification. That is, integrate various business modules on platform. A platform had different requirements for personnel quality: Different business modules had different quality requirements and the ability to integrate different business modules was needed. Partner classification system matched such module ability and integration ability, namely junior partner and senior partner. Classified partner was mainly applicable to business models, for which capital and human were important and included

general partner (GP) and limited partner (LP).

1.2.1.2 Partnership System Feature

Ying Fang (2006) mentioned in *Partnership System and Management of Modern Enterprise* after studying partnership system of Alibaba and Vanke that innovation of partnership system was mainly reflected in governance structure, incentive mechanism and enterprise culture.

From the point of governance structure, the corporate governance structure of traditional joint-stock company is board of shareholders-board of directors-manager. Board of shareholders elects board of directors and board of directors engages manager. But in fact, most companies are mainly controlled by board of directors and board of directors does not exercise the right of management. In partnership system, partner is shareholder and the founder of enterprise culture and nominates directors to better coordinate the relationship between board of shareholders and board of directors. Thus, partnership system with autonomous equity structure built under a legal framework is the core embodiment of freedom of contract and autonomy of will.

From the point of incentive mechanism innovation, partnership system endows partners with big strategic decision power, partly reduces influence of stock right on company development planning, gives employees recognition and opportunities effectively and helps them realize own value in order that

human capital, which is an active capital, can preserve or increase the value of money capital continuously.

From the point of enterprise culture innovation, partner can have a good understanding of corporate vision and development path. As the unique supporting force maintaining and inheriting enterprise culture, they are irreproducible and an important manifestation of soft power of enterprise.

Xin Quangang (2017) and Hua Xiaoxue (2015) drew conclusions on value of partnership system through case study.

In their mind, partnership system is conducive to not only ensuring management's control power permanently and effectively and lowering the cost to acquire control power, but also bringing human capital into play, avoiding founder's autocracy and promoting enterprise's stable and long-term development.

However, they also pointed out potential risks of existing partnership system. Xin Quangang considered the risks as shortage of shareholder's dominant right, way of acquiring stock right and shortage of disclosure and supervision of equity capital acquired. e.g.: Improper design of clauses on benefits of business partner and problems of internal governance of business partner. Hua Xiaoxue mainly described potential defects of Alibaba's partnership system: Fuzzy partner conditions, possible nomination deadlock, possible control risk of partner and restrictions of ordinary shareholder's

power^①.

Compared with traditional employment system, partnership system has unique advantages. The greatest disadvantage is that core talent may flow out of the company easily and employee goals may not be consistent with enterprise goals in daily work. The primary cause of these problems is that employee benefit is not closely tied with corporate benefit and consequently enterprise will enter a vicious circle of low efficiency, poor product quality and weak service awareness. Partnership system can overcome shortcomings of traditional employment system through binding employee benefit and corporate benefit.

1.2.2 Research Status of Partnership System Incentive Mode

Incentive mode evolves from traditional incentive mode to self-organized incentive mode. The former is mainly reflected by excess incentive and performance appraisal and the latter is called “partnership system” in the industry.

According to difference in organization level, “partnership” system can be divided into self-organized incentive mode partner and project partner. The former is mainly reflected by real stock incentive, option share and phantom stock; while the latter is common in project equity and project follow-up investment. Incentive mode under “partnership system” is often equity

^① Source: *Disadvantages of partnership system of Alibaba*. Baidu zhidao.
<https://zhidao.baidu.com/question/206395781574212205.html>

incentive to enterprise employees.

Equity incentive system is mainly used to solve principal-agent problems caused by separation of management right and ownership and relevant theories were first proposed by American Management scholars in 1932. In their point of view, manager would ignore shareholder benefits and damage enterprise owner's rights and interests to maximize personal interests when ownership and management right are separated. In 1976, scholar put forward equity incentive systems and they considered to unite senior manager and shareholder and lower agent cost through synergistic effect in order to solve principal-agent problems.

In the course of economic globalization, the aforesaid theories have been gradually recognized and accepted in western countries. Relatively speaking, China has a late start in equity incentive and equity incentive has been implemented on a policy basis since China Securities Regulatory Commission introduced relevant documents such as *Administrative Measures for Equity Incentive of Listed Companies (Trial)* in 2005.

In recent years, equity incentive of Chinese listed companies expanded year by year. According to related data in *Statistics and Analysis Report of Equity Incentive of A-share Companies in 2018*, 399 A-share companies announced 409 equity incentive plans and they were implemented as effectively as those in 2017 despite poor A share market in 2018, indicating that equity incentive has become a common way of enterprise operation and

management and an essential tool for listed companies to lower agent cost and improve corporate governance ability^①.

1.2.2.1 Research Status of Real Stock Incentive

Real stock holder has not only dividend right but also voting power as shareholder and decision-making and control power of the company. Equity design at this level is equal to top-level design of enterprise incentive mechanism and is mainly intended to ensure core management's control power of enterprise.

Legally, real stock refers to stock rights registered with the industrial and commercial bureau or stock rights not registered with the industrial and commercial bureau but provided with capital contribution certificate and recorded in the register of shareholders. Real stock incentive planes must be approved by voting of 2/3 of shareholders before implementation.

According to incentive object and source, real stock can be classified into directly registered real stock, in-service bonus share converted into real stock, phantom equity converted into real stock, stock option/option share. Many newly-rising internet enterprises often introduce new partners or cooperators. In order to avoid disputes and loss of control, stock right and voting power will be separated to acquire greater voting power by a few stock rights.

Gilson (1987) considered it possible to motivate management and rapidly

^① Source: *Stock ownership incentive of Chinese listed companies becomes normal*. Xinhuanet.
http://www.gov.cn/guowuyuan/2018-07/15/content_5306617.htm

expand business under dual equity structure. Since management valued expansion of market share highly, agency problems may not occur and minority shareholder didn't need to worry that their benefits would be embezzled by majority shareholder.

Jarrell and Poulsen (1988) found from empirical research that share price fell when enterprise adopted dual equity structure and made a statement on acquisition, so enterprise could adopt dual equity structure to resist hostile acquisition.

Dual equity structure at company level is described above, but Gompers et al. (2006) attributed the use of dual equity structure to personal satisfaction assumption. They considered economic benefit was not the only factor that the founder should consider while selecting equity structure, they also should consider other factors such as market environment. Dimitrov and Jain (2006) found from research that business performance improved when dual equity structure was adopted based on excess return.

Chen Ruoying (2014) thought the dual equity structure adopted in foreign countries indeed ensure steady operation of enterprise, so it should also be adopted in China, but enterprise should fulfill the duty of disclosure on time and assume potential risks. In order to better protect domestic investor's benefits, non-judicial relief mechanism similar to arbitral institution should be built.

Yan Danli (2014) studied dual equity structure of Facebook using the

same case study method as that adopted in this research and based on this analyzed whether it was suitable for China. In her opinion, an excellent management team was the requirement for dual equity structure. According to Chinese market conditions, enterprise should improve information disclosure system to protect minority shareholders' benefits and improve enterprise's listing conditions to adopt dual equity structure.

Chen Yunjun (2014) advised to introduce dual equity structure in China in a legislative perspective and considered that it could be adopted only when new enterprises of some industries were being listed or before they were listed, on the condition of limiting time validity of super voting share and shareholder's identity information and building relevant relief systems for shareholders.

Dual equity structure brought certain inspirations to China. Alibaba took the lead in practicing partnership system in China and many domestic scholars studied it.

Lu Haitian (2013) analyzed the reason why Alibaba practiced partnership system and thought that Alibaba's stock rights were dispersely distributed and equity would be further diluted if it was listed. Therefore, Ma Yun's team practiced partnership system for control power of the company, which was different from partnership system in a legal sense and American dual equity structure.

Zeng Yonggang (2014) elaborated the reason why Alibaba gave up being

listed in Hong Kong and explained its partnership system. He considered that: To achieve Alibaba's long-term objectives, the founding team should run and balance the capital market steadily, since it was a common nature of one share one vote, dual equity structure and Alibaba's partnership system.

Hua Xiaoxue (2015) comprehensively analyzed Alibaba's partnership system through case study and compared it with traditional partnership system and dual equity structure to analyze its advantages and disadvantages. She thought Alibaba's partnership system enlightened enterprises and regulatory authorities and suggested to build equity board timely and build and improve relevant supporting mechanisms.

Luo Xiaohao (2015) analyzed nature, innovation significance and advantages & disadvantages of Alibaba's partnership system using case study method. Research showed that partnership system was essentially an innovative form of dual equity structure and was under the same control arrangement of dual equity structure. Such control arrangement was conducive to long-term enterprise development and helped to input suitable human capital into incentive management team.

Qin Fangju (2016) regarded Alibaba's partnership system a correction of dual equity structure through analyzing Alibaba's "partnership" system and dual equity structure: First, stability of control power; second, cultural inheritance and management team; third, balance of investor's and founder's benefits.

Zou Jun and Xu Chuanshen (2016) drew inspirations from Alibaba's partnership system for governance structure innovation of state-owned enterprise: Barriers of the ownership of state-owned enterprise should be broken to innovate their governance structure; control power was the core to innovate the governance structure of state-owned enterprise; SOE was reformed to modern public company; demonstrate entrepreneurial spirit, improve relevant legal systems and optimize the institutional environment for innovating the governance structure of state-owned enterprise.

1.2.2.2 Research Status of Stock Option Incentive

Stock option incentive is a typical mode of equity incentive that enterprise owner provides operator with a right to purchase a certain quantity of stock rights at the agreed price within the specified time. Stock option incentive is a long-term incentive mode based on future return on equity value. In essence, it is a process of asset marketization, capitalization and securitization and it predicts future share value and plans equity withdrawal method in order to realize enterprise value maximization, especially business growth and healthy development, and improve operating efficiency and wealth.

(1) Positive influence of stock option incentive

With separation of ownership and control power, stock option incentive system is an incentive system with a huge value and a large development

space becomes an effective way to prevent operator's misconduct, arouse operator's enthusiasm and lower agent cost of modern enterprise system. Stock option incentive system has a positive effect in the following aspects:

First, lower high agent cost. Stock option incentive system lowers agent cost and unifies operator's and owner's benefits. Under traditional regular reward system, operator's benefit is mainly determined by financial condition of the preceding year and profit level of current period and operator is likely to abandon long-range planning or arrangement for the company and select operation mode in favor of personal equity incentive. To avoid such situation, shareholder has to set many systems for operator and input human, material and financial resources in the hope that operator could be devoted to their duties and work diligently for owner's and company's benefits instead of benefiting themselves at the expense of public interests and feathering their nest. Obviously, stock option incentive system is a good choice to lower high supervision cost^①.

Second, effectively avoid nearsightedness of top management. Stock option is an incentive system closely combined top management's future benefit and company's long-term development, which can effectively avoid nearsightedness of top management, enable them to make management decisions voluntarily in a perspective of company's long-term development

^① Source: *Stock option incentive system*. Baidu Library.
https://wenku.baidu.com/view/0ebec253b6360b4c2e3f5727a5e9856a561226c6.html?fr=search-1-wk_sea_esX-income5&fixfr=wrwU7Qz61o1S%2F8yqKBvBGA%3D%3D

and maintain shareholder's and their own benefits. Stock option incentive system, as a long-term incentive mechanism, can fully arouse operator's creativity and decision-making power and overcomes operator's shortsightedness.

Third, have a significant incentive effect on business growth. Stock option incentive system quickly prevails mainly because of its good incentive effect. Income that may be brought by stock option held by top management is determined by enterprise value, which is more attractive than their salary and bonus. Data shows an overall business growth trend of companies practicing stock option incentive system.

Fourth, facilitate to continuously introduce and stabilize talents. The ancients said, those who win talents win the country. Under traditional incentive mode, regular reward system facilitates to neither arouse operator's and core employee's enthusiasm nor retain core employees and denies the value of human capital, but stock option is an effective way to attract more excellent talents and core employees.

Last but not the least, facilitate to form a scientific corporate governance structure. Many reformed state-owned enterprises have the problem of excess equity concentration, which impedes the standardization and improvement of corporate governance structure, and board of shareholders, board of directors and board of supervisors do not play their roles in mutual supervision and

restriction^①. Stock option system can promote shareholder structure evolution, diversify and rationalize the equity structure and facilitate to form a more reasonable corporate governance structure.

(2) Negative influence of stock option incentive

Although stock option incentive system has a great advantage in lowering agent cost and promoting enterprise development, it also has the following disadvantages:

First, the possibility of financial fraud increases suddenly. Enron Corporation shocked the public that operator could use information asymmetry to procure improper benefits. As a financial derivative instrument, if stock option can create huge rewards only through stock price difference, a sudden increase in the risk of financial fraud does not harmonize operator's and owner's benefits and motivate operator to aim at long-term development, it may bring huge returns to operator.

Second, incentive system is twisted. As a long-term incentive system, stock option system is an important means of incentive system. As special shareholder, enterprise operator controls business operation and development. If they consider procuring improper benefits using information superiorities and supervision loopholes instead of acquiring income from stock price

^① Source: *Existing problems of corporate governance structure in China and improvement measures*.

Baidu Library.

https://wenku.baidu.com/view/cf67c98bf524ccbff12184a8.html?fr=search-1-wk_sea_esX-income11&fixr=Cilh3FKcgN82MBfLK5Mvcw%3D%3D

difference through elevating enterprise value, stock option incentive system is twisted to a mechanism that operator ignores fundamental interests of enterprise to maximize personal benefits^①.

Third, the income gap between management and grass-roots employees is enlarged. Management gains huge profits from the implementation of stock option incentive system and consequently the income gap between management and grass-roots employees is further enlarged. As a result, income and cost are out of proportion and internal income is unreasonably distributed and even the gap between rich and poor is widened, which damages grass-roots employees' enthusiasm for work and corporate identity and ordinary employees' trust for enterprise and professional dedication.

Fourth, incentive standard is irrational. Incentive standard does not take stock market fluctuation into account. For example, share prices of most enterprises rise in the bull market; while even loyal operators are unable to earn profits in the bear market. Thus, setting the incentive standard is worthy to be discussed deeply.

1.2.2.3 Research Status of Phantom Stock Incentive

Phantom equity is a phantom stock given to the incentive object without material equity but with dividend right or appreciation right (including appreciation of fixed assets, brand appreciation and other appreciations) of the

^① Source: *Conditions for building stock option incentive system for enterprise operator*. doc88.
<https://www.doc88.com/p-408540117984.html>

same shares as registered shareholders. Phantom equity incentive aims at raising employee's master consciousness and focuses on integrated management and development of enterprise in the hope that employees will gain return on appreciation and existing equity structure will not be affected. Therefore, phantom stock incentive is suitable for enterprises that can hardly implement real stock incentive and hope to practice equity incentive, including small and medium-sized enterprises. In essence, phantom stock incentive is internal financing, joint operation of enterprise and employee, value sharing and risk sharing^①.

Phantom stock can be held by natural person or holding company or majority shareholder and can be purchased by evaluation, self-finance or corporate loan (share is mortgaged and interest is collected). It should be paid by company in advance and deducted from dividends in future. For share-holding entrustment, phantom stock is held by dormant partner under two conditions: First, dormant partner should go through the formalities for equity transfer to become shareholder; second, dormant partner cannot be shareholder due to other limitations.

Advantage of phantom stock: It has no voting power, ownership, transfer right and right of inheritance but dividend right and income right only and it has no influence on total assets and ownership structure of company. Phantom

^① Source: *Significance of phantom stock ownership incentive of non-listed companies?* Personal Library. http://www.360doc.com/content/18/0404/14/40060546_742817011.shtml

stock has no lockup period and exercise period. If it is withdrawn or discharged in the lockup period, there will be no corresponding rights and interests and short-term act of incentive object can be avoided effectively. Moreover, phantom stock can solve the problem of “separation with stock” of old employees, evade the influence of separation of top management with stock or the temptation to interest arbitrage and avoid equity pass and dilution under real stock incentive^①.

Disadvantage of phantom stock: Incentive object is not the real enterprise owner that cannot enjoy the right of future stock premium. Meanwhile, legal phantom stock does not exist and phantom, as a contractual relationship between shareholder and company, is recorded in the designated stockholder list according to Company Law and needs not be registered and recorded with the industrial and commercial bureau, because it only has partial rights of real stock.

Phantom stock is equal to a medium and long-term incentive mode based on basic annual wage that does not affect equity institution and can retain talents and similar to an “incentive annual pay” that has a workaround under stock option blueprint and intensive incentive systems, so it can be referenced by small and medium-sized real estate enterprises or non-listed companies retaining talents.

^① Source: Dormant partner’s share-holding entrustment agreement. Lvtu. <http://www.64365.com/>

1.2.2.4 Influence of Equity Incentive on Corporate Performance

Western scholars Berle and Means (1932) put forward theories on equity incentive and business performance at the earliest and found from research that company management was likely to use their position to pursue personal interest when they did not hold or held minority shares, which went against the goal of shareholder wealth maximization. Since then, many western scholars started to study the relationship between equity incentive and company performance and focus on solving conflicts between shareholder and management through equity incentive.

(1) Significant positive effect of equity incentive

It has been studied abroad very early, especially in economically developed countries such as Japan and America. Overseas research showed a significant positive effect of equity incentive on company performance.

Ciscell (1980) studied 230 industrial enterprises from 1973 to 1976 and found a significant positive correlation between top management's pay and sales.

Clinch and Magliolo (1993) measured enterprise performance using operation revenue and found from empirical research that operation revenue had a significant effect on top management equity incentive.

Kaplan (1994) compared Japanese and American listed companies and found from research that employee equity incentive was consistent with the

variation tendency of sales, income and share price appreciation. That is, equity incentive was positively related to enterprise performance.

Mehran and HamidC (1995) studied equity incentive and performance of 153 manufacturing enterprises and divided top management incentive into monetary income and stock option. Research showed that enterprise performance was positively related to all parts of the equity incentive structure.

Hall and Liebman (1998) studied equity incentive and performance of more than a hundred commercial enterprises and the relation between president's equity incentive and performance and figured out a significant positive correlation. To verify this conclusion, Hall and Liebman studied more than a hundred largest commercial enterprises in America, whose shares were held by the public, for years and drew the same conclusion that equity incentive had a strong positive correlation with enterprise performance.

American scholars Cynthia and Campbell (1999) studied out a significant positive correlation between shareholding ratio of management of listed companies and enterprise value through empirical regression test.

Schulz Eric, Tubbs and StewartL (2006) studied 330 listed information technology companies and found that reasonability of equity incentive plans and their applicability to company environment and mechanism had a significant effect on company performance.

KevinC (2011) studied 280 listed companies on New York Stock

Exchange, collected data from 2006 to 2009, divided the equity incentive structure, studied the relationship between top management equity incentive and enterprise performance and found a significant positive correlation and a big effect of enterprise scale on top management equity incentive level. James and Adam (2011) studied 222 American listed companies, collected and processed annual reports from 2005 to 2008 and found a significant positive correlation between top management equity incentive and enterprise performance and a negative correlation between top management equity incentive and director's shareholding ratio.

According to domestic research findings, equity incentive had a significant positive effect on company performance.

Tong Jungjun (2003) studied companies implementing equity incentive from 1998 to 2001 and found that equity incentive could partly improve performance of Chinese listed companies.

Chen Xudong (2008) studied listed companies in Shanghai, carried out correlation analysis of cross-section data collected using least square method and found a significant positive correlation between equity incentive and enterprise performance.

After that, Huang Jie and Cai Gennv (2009) studied 22 listed companies that had implemented equity incentive by 2009 with 22 listed companies that did not implement equity incentive as control and found that equity incentive had an enhancing effect on company performance.

Run Yingjun (2011) studied 53 listed companies on low carbon board and carried out univariate and multivariate regression analysis of data from 2007 to 2009. Result showed a significant positive correlation between equity incentive and enterprise performance, indicating that top management incentive of low carbon board has formed an effective performance incentive mechanism.

Zhang Binghui (2012) studied 478 A-share companies from 2009 to 2021, collected annual reports and found from research that equity incentive had a significant effect on enterprise performance and there was a significant positive correlation between them.

Liu Youming (2012) studied listed companies implementing equity incentive plans from 2006 to 2009 and analyzed the effect of equity incentive on company performance. Result showed that equity incentive could effectively reduce management's entrenchment act, lower agent cost and greatly improve company performance.

Yang Ruijuan (2012) studied 146 enterprises of China's electronic information industry and selected top management's personal characteristics such as sex and academic degree and company characteristics and governance factors as control variables of equity incentive. Empirical research showed a positive correlation between equity incentive and enterprise performance and between equity incentive and enterprise scale and liability ratio of current assets. Location of listed companies had a little effect on top management

equity incentive and top management's personal characteristics also had a little effect on equity incentive.

Chen Jili (2014) studied listed companies in Shanghai and Shenzhen, collected annual reports from 2010 to 2012, including annual reports of 1178 listed companies in 2010, those of 1223 listed companies in 2011 and those of 1246 listed companies in 2012, and carried out univariate and multivariate regression analysis with ROE and EPS as enterprise performance variables. Result showed that regression coefficient was positive and passed significance test at a significance level of 0.01, indicating a significant positive correlation between equity incentive and performance of Chinese listed companies from 2010 to 2012.

Wang Tao and Hu Minjie (2015) studied listed companies implementing equity incentive from 2006 to 2010 and found that equity incentive could effectively improve company performance. The effect was the best in the first year and weakened gradually.

Chan Yaodong (2015) studied state-owned enterprises in Binhai City of Shandong Province, collected related data from 2004 to 2014 and carried out correlation analysis. Research showed a significant positive correlation between equity incentive of state-owned real estate enterprises of Binhai City and enterprise performance measured by total profit, which was more significant than other industries.

On the contrary, Hu Ying (2017) found from research that equity

incentive had a significant enhancing effect on company performance not in the first year but in future.

Xu Juanjuan, Chen Yan and Chen Zhiyang (2016) studied the effect of equity incentive with A-share companies from 2007 to 2013 as the object and found that equity incentive could effectively improve management's enthusiasm for work and they could improve earnings management level to get executive income in order to elevate company performance.

Xiao Shuguang and Yang Jie (2018) selected all A-share companies implementing equity incentive from 2011 to 2016 in Shanghai and Shenzhen, studied the dynamic effect of top management equity incentive on upgrading various enterprises (group of enterprises, labor-intensive enterprises and non-labor-intensive enterprises) using panel vector auto-regression method and found that top management equity incentive had an enhancing effect on performance in the short and long term.

(2) Significant negative effect of equity incentive

Some scholars thought equity incentive had a significant positive effect on company performance and some thought there was no significant correlation between equity incentive and company performance.

Gao Minghua (2001) studied 473 listed companies on Shenzhen Stock Exchange from May 31, 1998 to April 10, 2000, measured enterprise performance using ROE and EPS and carried out correlation analysis with explained variables as top management's shareholding ratio. Result showed

that top management's shareholding ratio had no significant effect on enterprise performance.

Wei Gang (2000) studied 816 listed companies in Shanghai and Shenzhen in 1998, collected and analyzed annual reports and found no significant correlation between equity incentive and enterprise performance and negative correlation between top management's shareholding ratio and enterprise performance.

Gu Bin and Zhou Liye (2017) ignored industry impact while studying the effect of equity incentive of listed companies and drew a conclusion that: Equity incentive of top management incentive mechanism had a significant positive regulatory effect on the relationship between innovation input and company performance, especially in technology intensive industries; while equity incentive showed no significant regulatory effect in the studies of full samples and sub-industries.

Cheng Longyun and Yue Chunmiao (2008) studied listed companies implementing equity incentive through empirical analysis and found that equity incentive had never been implemented in Chinese listed companies.

Zheng Xiaoling (2009) carried out empirical research on listed companies that have implemented normative stock option incentive since 2006 and found instability and deficiency of equity incentive in Chinese listed companies.

Wu Xiaolan (2011) studied listed companies implementing stock option

incentive from 2006 to 2011 and found that stock option had no obvious incentive effect on company performance.

Wang Xuan and Xiao Difu (2013) studied Chinese private real estate enterprises from 2008 to 2011 and found negative correlation between equity incentive and enterprise performance and positive correlation between equity incentive and enterprise scale.

Yin Meiqun, Sheng Lei and Li Wenbo (2018) studied A-share main board companies in Shanghai and Shenzhen from 2009 to 2015, carried out cluster analysis according to production factors and divided these companies into technology intensive companies, capital intensive companies and labor intensive companies. Empirical research showed no significant correlation between management's shareholding ratio and company performance.

(3) Interval effect of equity incentive

Except the above two conclusions, some scholars studied out an interval effect of equity incentive on company performance. Western scholars Morck, Shleifer and Vishny (1998) measured company performance using Tobin Q value and carried out piecewise empirical and regression researches on 371 listed companies. Result showed that company performance increased steadily when top management's shareholding ratio was 0%-5%, tended to decline when top management's shareholding ratio was 5%-25% and tended to rise when top management's shareholding ratio was above 25%, indicating an interval relation between top management's shareholding ratio and company

performance.

Afterwards, Mcconnel (1990) carried out further empirical analysis according to Morck's thought and result showed a reversed U relationship and an interval relation between top management's shareholding ratio and company performance.

Cui and Malk (2002) carried out empirical research on listed companies with high R&D expenditure and found negative correlation between top management's shareholding ratio and company performance when top management's shareholding ratio was 0%-10% and 30%-50% and positive correlation when top management's shareholding ratio was 10%-30% and above 50%, indicating a W-shaped correlation between top management's shareholding ratio and company performance.

Xu Dawei, Cai Rui and Xu Minglei (2005) carried out empirical research on 25 MBO companies according to Convergence of Interest and Management Entrenchment in a perspective of Management Buy-Out (MBO) and found a nonlinear cubic equation relationship between top management's shareholding ratio and company performance.

Sun Tanggang (2009) carried out empirical research on 63 listed companies implementing equity incentive and found positive correlation between equity incentive and company performance when top management's shareholding ratio was 4%-7% and no significant relation when top management's shareholding ratio was 0%-4% and 7%-10%, indicating an

interval relation between equity incentive and performance of listed companies.

Liu Hua (2010) carried out empirical analysis of listed new high-tech enterprises and found an interval relation between equity incentive and company performance and significant positive correlation between equity incentive and company performance when top management's shareholding ratio was 6%-10%.

Zhang Wenfei (2018) carried out empirical analysis of main board listed companies in Shenzhen and Shanghai from 2014 to 2016 and found an interval relation between equity incentive intensity and company performance. There was a significant positive correlation between equity incentive intensity and company performance when top management's shareholding ratio was 0%-62.54% and company performance decreased with increase in equity incentive intensity when top management's shareholding ratio was 62.54%-100%.

Above all, scholars have not drawn a uniform conclusion on the effect of equity incentive on company performance, some drew a conclusion on significant correlation between equity incentive and company performance through reasoning and empirical test, some considered no correlation between them and some studied out an interval relation between them.

1.2.3 Research Status of Follow-up Investment System of Real Estate Enterprise

1.2.3.1 Real Estate Follow-up Investment System and Partnership System

As to the original intention of establishment and popularization, follow-up investment system of real estate enterprise contains multiple factors such as risk control over business expansion, management decision efficiency and full team motivation. However, follow-up investment system is backed by the basic logic of partnership system.

Considering particularity of real estate industry, most project companies are established in the form of project, project partner is common in project shareholding and project follow-up investment and different enterprises adopt different modes. Another type is not holding project shares but holding company shares directly. Similar to project follow-up investment, project share is aimed at motivating company management and project manager and income is from profit of project follow-up investment. Holding company shares is long-term benefit binding and focuses on shareholding scope, shareholding form, shareholding ratio, distribution method, organization form and profit sharing. Holding project shares is project-based short-term equity incentive and focuses on organization form, investor, shareholding ratio, investment regulation, withdrawal mechanism and income distribution. The two types of partner are collectively called business partner.

Two types of business partner are shown in Fig. 1.4:

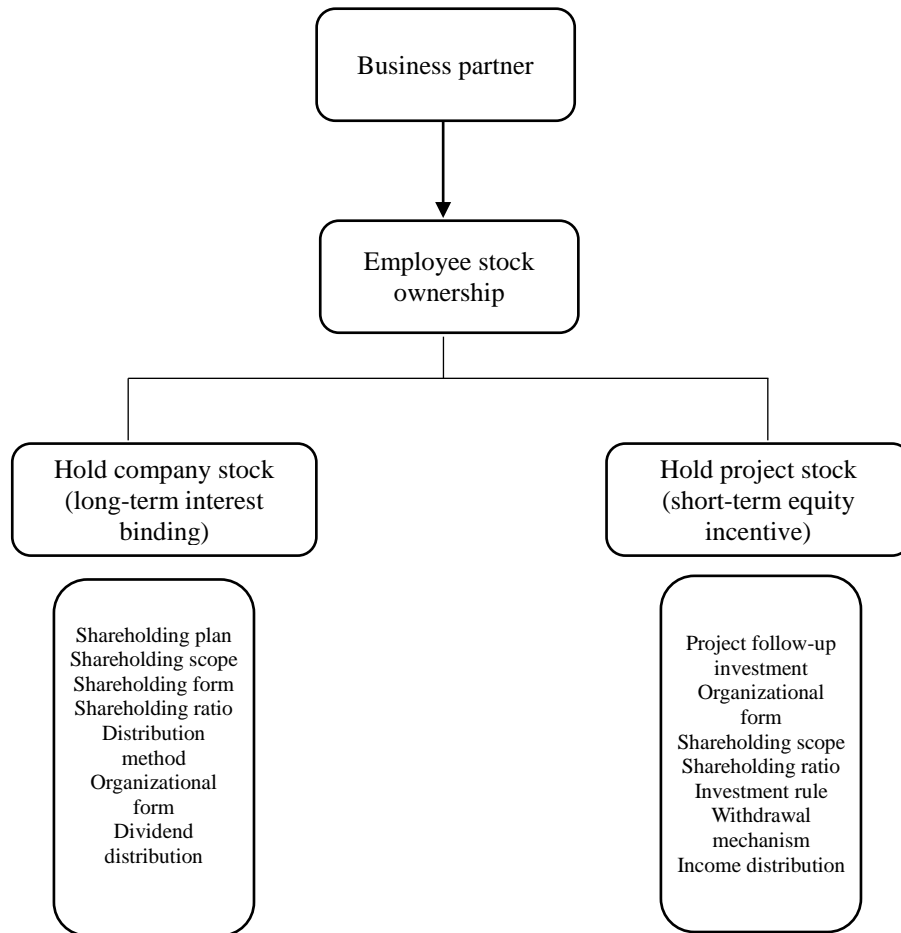


Fig. 1.4 Two types of business partner
Data source: Mingyuan Real Estate Research Institute

1.2.3.2 Business Partnership System for Holding Project Stocks

Business partnership system for holding project shares is real estate follow-up investment system in a narrow sense and has the following three main features:

First, partnership system mainly includes limited partner and general partner. General partner mainly includes top management and core employee of project and carries out follow-up investment in project as needed. Limited

partner mainly includes employees who can chose follow-up investment voluntarily. General partner in project follow-up investment system can use a part of fund, labor service or bonus as the investment subject for follow-up investment and they must participate in project development and construction and jointly develop enterprise's development strategy. Limited partner in project follow-up investment system just needs to provide fund, land use right and other assets for investment and they can give advice about enterprise strategy and system, but they have a weaker speaking right than general partner and cannot participate in enterprise management directly.

Then, from the point of risk and income, general partner needs to assume unlimited joint and several liability for project. Compared with limited partner, they bear heavier pressure. If a project fails, they need to not only invest capital but also repay debts using personal assets. However, general staffs just need to assume corresponding responsibility according to ratio of contributions instead of repaying debts using personal assets. If a project succeeds, general partner gains more benefits than limited partner. Both limited partner and general partner carry out follow-up investment to gain benefits.

Third, from the point of withdrawal mechanism, it is required to meet the withdrawal conditions for follow-up investment mechanism. In order to ensure capital chain and smooth implementation of project, project follow-up investment mechanism of real estate enterprise often has strict withdrawal

conditions.

From the perspective of real estate, project follow-up investment is that employee invests in a project, which should have been invested by company unilaterally, using free funds, shares income from investment and assumes investment risk. Company can assume the risk and share profits together with relevant responsible persons and reduce the risk in transfer of project manager to some extent. Follow-up investor can share profits or gain benefits, but it also signifies bigger responsibilities and restrictions. Follow-up investment system for real estate project has a wider design scope, including participant selection, determination method of equity ratio, organizational form design of follow-up investment, income design, withdrawal mechanism design and reward mechanism design.

Qiu Baiyu (2016) discussed how state-owned real estate enterprise carried out scientific follow-up investment. Generally speaking, follow-up investment system for real estate project could effectively stimulate operational vigor and control investment risk. Mandatory follow-up investment system would impose heavy pressure upon administrative staffs and reduce employee benefit.

Wang Zhenlian (2017) analyzed the development status of follow-up investment system for real estate project, inflow of funds in typical follow-up investment system for real estate project, withdrawal and income distribution method and advantage and disadvantage of follow-up investment mode with

Vanke, Country Garden and Gemdale Corporation as an example. Result showed that project follow-up investment system was conducive to arousing employee's enthusiasm, elevating company performance, shortening project decision process, promoting organizational reform and transformation, building more cohesive team and retaining talents with stronger anti-pressure ability.

Zhou Ziyi (2017), with F enterprise as the research object, carried out case analysis of follow-up investment mode. Result showed that employee follow-up investment mode helped small and medium-sized real estate enterprise to reduce financing cost, enhance employee's sense of belonging, create profit and expand enterprise scale.

Xie Modian (2018), with Vanke and Country Garden as an example, analyzed the effect of employee follow-up investment system on enterprise. Result showed that project follow-up investment mode could enhance enterprise's profitability, reduce investment risk and intensify management team's personnel stability, but it may increase follow-up investor's stress and financial risk and lengthen the payback period.

Huang Qiuyu et al. (2018) analyzed project follow-up investment system of Vanke, Country Garden, Yuexiu Property, Gemdale Corporation and Greenland Group from the perspective of project selection, personnel selection, determination of investment ratio, participation model of project follow-up investment, profit sharing and withdrawal mechanism and pointed

out that project follow-up investment should be carried out in consideration of employee concern, recruitment and cash flow as well as enterprise's development ability, financial ability, operation capacity and operational capacity and in accordance with top-level design, selection mode, implementation scheme and ordered implementation.

Compared with other equity incentive modes, project follow-up investment and partnership system mainly has the following 4 advantages:

First, incentive object of project follow-up investment has a wider scope. Project follow-up investment can gain excess profit through land acquisition, financing and operation. Project follow-up investment system is designed to be closely related to maximum fund, cash backflow and IRR and stresses co-creation, profit sharing and joint adventure.

Second, project follow-up investment has a wider incentive scope. Relative to other equity incentive modes of partnership system, project follow-up investment is prone to be accepted by incentive object due to timeliness and wider scope.

Third, project follow-up investment has a stronger driving force and it can combine financial feature of real estate industry and employee's initiative and maximize time value of money and the role of human capital.

Fourth, project follow-up investment is well-matched with enterprise' development strategy, flexible and adaptable to enterprise organization and culture.

1.2.3.3 Business Partnership System for Holding Corporate Stocks

Business partnership system for holding corporate stocks is closer to equity incentive.

In the beginning of 2014, Vanke first proposed “business partnership system” in the real estate industry and developed “corporate shareholding plan” to entrust all rights and interests of business partner of Vanke Group in economic profit (EP) bonus account to Ying’an Partnership for funds management and purchasing Vanke’s shares using funds raised using financing leverage. Similar to “employee shareholding system” of Greenland Group and Huayuan Real Estate, Vanke’s business partnership system enhances management’s control power through buying additional shares^①.

Presently, domestic researches on business partnership system of real estate enterprise are mainly carried out with Vanke as the object. After the implementation of business partnership system, Vanke proposed a scheme stressing governance and equity structure adjustment, which aroused scholars’ research interest. Researches on partnership system mainly focused on how shareholding plan solidified control power and resisted hostile investors from Vanke’s board of directors. It had a different purpose and concept from project follow-up investment system^②.

^① Source: *Vanke’s management resolution: Reconstruction of enterprise management mechanism guided by business partnership system (part two)*. SOHU.COM. https://www.sohu.com/a/297929843_100087285

^② Source: *Entrepreneurial experience-Analysis and research of Vanke’s business partnership system*. SOHU.COM. https://www.sohu.com/a/113685339_379366

Mouna Nash (2013) thought partnership system could weaken the concept that “professional managers work for shareholders” to some extent, resolve “centrifugal phenomenon in times of crisis”, overcome “superstition of professionalism” and change the pyramid structure and inflexibility and low efficiency of bureaucratic management.

Lukas Goretzki (2014) thought human capital linked partnership system took talent as the core, was based on shared vision, shared objective, common value orientation and common business platform and enabled human capital to dominate money capital.

Top manager of Vanke Tan Huajie (2015) studied the role of professional manager system and business partnership system in corporate governance. Result showed that business partnership system did not play a role in all enterprises and enterprise should examine their situation before making judgments. The implementation of business partnership system is determined by three factors:

(1) Business encapsulation: Whether business is decomposed to units and whether every unit can be calculated independently;

(2) Knowledge individuality: Whether enterprise is controlled by individuals;

(3) Equity dispersity: If equity of an enterprise is highly concentrated, shareholder will not abandon residual claim instinctively.

Li Wengui and Yu Minggui (2015) thought business partnership system

more than solved the problems of operator's status and authority in enterprise, but it focused on personnel during business operation and changed a new driving system from "enterprise owner is driven by one person" to "business management team is driven by a team".

Tian Lei (2015) thought, according to ESOP of listed company, if stock was deducted from salary by trust and actual shareholder was employee of Vanke, insider trading may be involved. Thus, it was necessary to set time and identity limitations of transaction behavior.

Wang Ming (2015) mentioned the role of project follow-up investment in study, which changed independent assumption of risk to joint assumption of risk. Mandatory follow-up investment and voluntary follow-up investment greatly raised relevance of main responsible person's interests. Relevant employees were included in project partners to enhance their sense of participation and belonging.

Zhang Xiaomei (2016) thought the implementation of business partnership system reduced outflow of managerial staffs, enhanced management's sense of being master and made corporate interests and personal interests inseparable. Then, it elevated management level of project company, lowered management cost through flat management and improved management efficiency. Finally, it solve financing problem of some projects and realized rapid expansion in consideration of employment investment absorption.

Wang Qian (2016) mentioned that business partnership system was proposed and implemented to solve the problem of enterprise owner's and operator's relation and status. It not only solved an equal and synergetic relationship between "rights and responsibilities" of operator during business management and transformational change and truly endowed operator with management right, but also gained return from business value and truly realized synergy and consistency of benefits between enterprise owner and operator.

Li Xiaoting and Li Tao (2016) thought management and operation team undoubtedly would make investment decisions prudently in consideration of personal interests and consequently shareholder benefits would be guaranteed.

Xu Xiaoping (2017) mentioned the role of intrapreneurship. In his mind, intrapreneurship was a future investment Vanke and it gave talents a larger development space and provided financial support for promising project, which laid a solid foundation for future development no matter in essence and benefit.

1.2.3.4 Influence of Partnership System Incentive on Corporate Performance

As is mentioned above, incentive modes under partnership system are summarized, as shown in Table 1.2:

Table 1.2 Specific features of partnership system incentive mode

Incentive model	Application stage	Advantage	Disadvantage
Real stock incentive	Institutional innovation in the initial stage of pioneering or in the mature stage of enterprise	Conducive to retaining core talents of enterprise	Affect equity structure, small scope
Stock option incentive	Rapid development stage of enterprise	Long-term incentive, conducive to retaining core talents of enterprise	Long exercise period, heavily influenced by stock price
Phantom stock incentive	Ownership concentrated enterprises and small and medium-sized enterprises	Retain core talents of enterprise under instable equity structure	Not held actually, equity premium cannot be enjoyed, limited incentive to management level
Project equity	Sized enterprises with multiple branches/projects	Unify interests of core personnel of project	Income is mainly determined by project return, there is investment risk
Project follow-up investment	Sized enterprises with multiple branches/projects, small and medium-sized enterprises	Retain core team members, large scope, big autonomous right of employees	Income is mainly determined by project return, there is investment risk

(1) Relevant overseas researches

The influence of partnership system of the real estate industry on performance has been rarely studied at home and abroad.

Davis and Shelor (1995) studied American real estate industry and found a significant correlation between equity incentive for senior manager and enterprise performance measured by financial index.

(2) Relevant domestic researches

Although domestic scholars continuously studied the relation between equity incentive of the real estate industry and enterprise performance in recent year, a consensus has not been reached. Most scholars studied out a positive correlation and some studied out uncorrelation and even a negative correlation. In terms of sampling time, the latest data showed the greater possibility of positive correlation between equity incentive and enterprise performance.

First, equity incentive is positively correlated to enterprise performance:

Zheng Xuejiao (2011) selected listed real estate enterprises in Shanghai and Shenzhen in 2010, collected data and carried out regression analysis. Result showed a significant positive correlation between equity incentive level and top management performance and between equity incentive difference and enterprise scale and performance.

Dai Yisheng (2013) collected annual reports of Chinese listed real estate enterprises from 2009 to 2011, collated data, identified incentive modes and carried out empirical research on the relationship between incentive mode and enterprise performance. Result showed a positive correlation between performance of different types of enterprise and top management equity incentive and a significant negative correlation between enterprise performance and asset-liability ratio.

Chen Jili (2014) studied listed companies in Shanghai and Shenzhen, collected annual reports from 2010 to 2012, including annual reports of 1178

listed companies in 2010, those of 1223 listed companies in 2011 and those of 1246 listed companies in 2012, and carried out univariate and multivariate regression analysis with ROE and EPS as enterprise performance variables. Result showed that regression coefficient was positive and passed significance test at a significance level of 0.01, indicating a significant positive correlation between equity incentive and performance of Chinese listed companies from 2010 to 2012.

He Junyao (2014) selected listed real estate enterprises from 2001 to 2011, classified them into state holding enterprises and non-state holding enterprises and processed data using panel data regression analysis. Result showed a significant positive correlation between equity incentive and enterprise performance, but performance of non-state holding enterprises had a greater correlation with equity incentive than that of state holding enterprises.

Yu Aifen (2015) studied 114 listed real estate enterprises in Shanghai and Shenzhen with enterprise performance as the dependent variable, equity incentive and management shareholding ratio as the independent variable and enterprise location, scale, ownership concentration and ownership structure as the control variable. Empirical analysis result showed a positive correlation between equity incentive and enterprise performance, especially for enterprises not in first-tier cities.

Second: equity incentive is unrelated to enterprise performance:

Although a lot of documents showed a positive correlation between equity incentive and enterprise performance, some showed no correlation and even a negative correlation.

Wu Bin (2009), with 45 listed real estate enterprises in Shanghai and Shenzhen from 2006 to 2008 as the research object, carried out empirical research on the relationship between equity incentive and enterprise performance. Result showed no significant correlation between equity incentive and enterprise performance, but the relation was enhanced gradually, indicating that incentive system of Chinese real estate enterprise was improved continuously and was increasingly related to enterprise performance.

Zheng Fangfang (2010) studied 51 listed real estate enterprises in Shanghai and Shenzhen from 2006 to 2008, analyzed the relation between enterprise performance and equity incentive and measured enterprise performance using ROE and basic EPS. Result showed no correlation between equity incentive and enterprise performance in statistical significance.

Fu Yi (2010) carried out empirical research on annual reports of listed real estate enterprises in Shanghai and Shenzhen in 2004 and found that there was a big difference in top management equity incentive. Generally speaking, enterprise performance had no significant influence on top management equity incentive, but enterprise scale had a significant positive correlation with equity incentive.

Wang Xuan and Xiao Difu (2013), with Chinese private real estate enterprises as the research object, studied data from 2008 to 2011 and found a negative correlation between equity incentive and enterprise performance and a positive correlation between equity incentive and enterprise scale.

1.2.4 Comment of Research Literature

Existing researches showed basic theories on partnership system and incentive system are quite mature and corporate governance theories are systematic.

As a type of enterprise management system, real estate follow-up investment mode is implemented based on form of enterprise organization. Follow-up investment mode emerges with business partnership system and business partnership system is designed specific to different levels of organizational form.

In the real estate industry, most domestic and overseas researches are carried out from a viewpoint of owner and manager, analyzing and discussing project follow-up investment system as a crowdfunding mode in the financing scope. However, most researches on incentive system and enterprise performance are carried out based on enterprise performance.

1.2.4.1 Blank Spot of Theoretical Research on Real Estate Follow-up Investment System

(1) With the same features of partnership system, real estate follow-up investment system not only stresses consistency between personal interests of employees at different levels and corporate interests, but also specifies consistency between employee interests and corporate interests in a microscope view. Compared with traditional salary system, this system enables enterprise to adapt to complicated and changeable externalities.

Whereas business partnership system is still in the initial development stage, how to further improve the system and harmonize employee objectives and enterprise objectives remains to be further discussed, even though principal-agent problems have been improved partly.

(2) Different cycles of the real estate industry, operating condition of enterprise and different types of projects will have a certain impact on the implementation effect of follow-up investment system. Follow-up investment system of the real estate industry and sub-industries and the implementation effect have been deeply discussed, but a consensus has not been reached on the effect of incentive mode under partnership system on enterprise performance. Meanwhile, scientific and comprehensive researches on the implementation effect of real estate project follow-up investment system remain to be conducted.

(3) Although business partnership system and project follow-up investment system have been studied, most studies focus on the implementation mode and effect of project follow-up investment of large real estate enterprises. Researches on small and medium-sized real estate enterprises focus on equity incentive instead of project follow-up investment system. Whether follow-up investment mode can be implemented effectively in more small and medium-sized enterprises remains to be demonstrated and analyzed.

(4) As to partnership system, equity incentive includes real stock incentive, stock option incentive, phantom stock incentive, project stock incentive and project follow-up investment incentive and different types of equity incentive are suitable for different types of enterprise. Most of existing researches summarize the aforesaid equity incentive modes, but studying the effect of every incentive mode on enterprise can further enrich research achievements.

(5) Business partnership system of the real estate industry helps enterprise improve risk resistance capability and earning capacity in the rigorous operating environment. Existing researches focus on raising income and risk prevention and control is seldom researched. If incentive effect is measured using income increase and risk prevention and control, scientificity and reasonability of research conclusions can be guaranteed.

1.2.4.2 Gap of Establishment of Real Estate Follow-up Investment System

Follow-up investment system has been widely applied in the real estate industry and different companies reform and innovate follow-up investment system combined with their own features so that it is more consistent with industry features. Construction of project follow-up investment system for the real estate industry has been rarely studied and all links thereof remain to be combed.

Real estate project follow-up investment system is essentially an incentive system based on business partnership system. It is different from other incentive modes under partnership system that it is refined at a microscope level and has a wider application scope and a stronger incentive effect. Real estate project follow-up investment system has four stages according to real estate development characteristics: Entry, return, dividend and withdrawal, and different mechanisms are designed for every stage, including follow-up investment ratio, follow-up investment amount, leverage ratio, return/dividend condition and method as well as organizational form and selection of follow-up investor range.

Presently, design of follow-up investment system is often studied through case analysis and specific follow-up investment system is designed for an enterprise; while qualitative research is carried out mainly for design of mechanisms relating to value setting and the followings need to be further

studied:

A. Project follow-up investment system should be designed to be comprehensive and scientific. That is, whether project follow-up investment system is designed differently according to industry cycle, enterprise development status and project type;

B. Quantitative study should be carried out for setting of values relating to project follow-up investment system based on qualitative analysis in order to set fundamental norms and templates of industry.

C. Existing researches excessively stress the effect of project follow-up investment and ignore the risk. Particularly, management participating in follow-up investment will bear heavy pressure from leverage fund and social issues will be caused when the real estate industry has a downturn, income decreases or loss occurs. How is this problem solved in institutional development?

D. If withdrawal mechanism of product is unclear, income cannot be realized timely or investment cannot be withdrawn easily, incentive effect will be affected seriously. What is a reasonable project withdrawal mechanism?

In this paper, qualitative and quantitative researches will be carried out for design of real estate project follow-up investment mechanism, organization of follow-up investment links and follow-up investment effect to fill in the research gap.

1.3 Research Content, Research Framework and Research Method

1.3.1 Research Content

Based on 4 problems, this research has been divided into the following four parts:

1.3.1.1 Effect Analysis of Follow-up Investment System under the Cycle of Real Estate Industry

Horizontal comparison was carried out for the implementation effect of real estate follow-up investment system (which can be replaced by business partnership system) from 2008 to 2018. First, enterprises that implement real estate follow-up investment system (which can be replaced by business partnership system) with those that do not implement real estate follow-up investment system in different cycles of the real estate industry were compared; second, projects that implement follow-up investment system with those that do not implement follow-up investment system in different cycles of the real estate industry were compared.

1.3.1.2 Effect Analysis of Follow-up Investment System under Enterprise Heterogeneity

In this paper, enterprise was classified according to life cycle, nature, scale and operating condition and based on this influence of enterprise heterogeneity on the implementation effect of follow-up investment system

was studied.

1.3.1.3 Effect Analysis of Follow-up Investment System under Different Project Types

In this paper, project was classified according to cycle, estimated profit and nature (e.g.: Cultural tourism project, commercial project and self-run project) and based on this the implementation effect of follow-up investment system was studied.

1.3.1.4 Design of Real Estate Follow-up Investment System

Based on classification result of industry cycle, enterprise and project, real estate follow-up investment system was classified into entry mechanism, return mechanism, profiting sharing mechanism and withdrawal mechanism according to traditional investment model and real estate development characteristic and specific problems existing in different stages were discussed as follows:

(1) Entry mechanism includes follow-up investment equity design, follow-up investor selection and follow-up investment carrier selection. Follow-up investment equity design includes follow-up investment reference index and follow-up investment ratio selection. As to follow-up investment reference index, whether follow-up investment amount is designed according to maximum fund, equity or other indexes should be discussed. As to

follow-up investment ratio selection, specific value should be discussed. Follow-up investor selection includes follow-up investment group selection, follow-up investment amount control and fund leverage. As to follow-up investment group selection, follow-up investor range should be discussed. As to follow-up investment amount control, whether there are upper and lower limits for follow-up investment amount should be discussed. As to fund leverage, whether company provides follow-up investor with leverage should be discussed. If any, how to set the leverage should be discussed. As to follow-up investment carrier selection, whether project partnership is established or fund/capital management plan is passed for follow-up investment^①.

(2) Return mechanism is designed with time point and form. The former mainly describes return conditions and the latter mainly describes whether principal is returned at a time or several times.

(3) Profit sharing mechanism mainly includes design of profit sharing condition and design of profit sharing progress. The former mainly describes whether follow-up investor shares profit unconditionally or based on financial index or non-financial index and the latter mainly describes time point of profit sharing, such as time point of first profit sharing and time point of subsequent profit sharing.

^① Source: *How does project follow-up investment of state-owned enterprise break the situation effectively?* SOHU.COM. https://www.sohu.com/a/284287422_665204

(4) Withdrawal mechanism mainly includes regular withdrawal and irregular withdrawal. The former mainly describes the conditions for withdrawal and the latter mainly describes design of withdrawal mechanism for staff dismissal or mobilization.

1.3.2 Research Thought

The author combed the development environment and internal environment of Chinese real estate industry, stressed the necessity to implement real estate follow-up investment system, summarized the research status and pointed out shortcomings of real estate follow-up investment system, which was a new incentive system. Based on this, the author tried to discuss the implementation effect of real estate follow-up investment system from a perspective of industry, enterprise and project and designed real estate follow-up investment system.

As to analysis of the implementation effect of real estate follow-up investment system, industry cycle was measured using related data of CSMAR and questionnaire was designed according to classification of cycle, enterprise and project to acquire financial data and non-financial data to analyze the implementation effect of real estate follow-up investment system.

As to design of real estate follow-up investment system, questionnaire and interview were designed for entry mechanism, return mechanism, profit sharing mechanism and withdrawal mechanism and result was processed and

measured using AMOS method and threshold regression model.

1.3.3 Research Framework

Chapter 1, introduction. In this part, research background and theoretical significance and realistic significance of research were introduced first. Then, main problems to be solved, literature review, main research content, research method, research framework and technical route were presented and general research thought was built.

Chapter 2, relevant concepts and theoretical basis. Partnership system and incentive system were introduced. As to partnership system, partnership, joint-stock system, limited partnership, general partnership, limited partner and general partner were mainly introduced. As to incentive system, real stock incentive, stock option incentive, phantom stock incentive, project stock incentive, project follow-up investment, excess incentive, performance appraisal and relevant incentive measures were introduced. As to theoretical basis, agency theory and incentive theory were introduced.

Chapter 3, status analysis of China's real estate follow-up investment system. Analysis was carried out from the perspective of follow-up investment history, main content of follow-up investment and challenge in follow-up investment.

Chapter 4, follow-up investor selection, amount and operating platform: Mandatory follow-up investor selection, selection of resource follow-up

investment, determination of follow-up investment amount and ratio and realization of follow-up investment were conducted by business partnership shareholding platform. In the downward cycle of the real estate industry, we should reduce mandatory follow-up investment amount and relieve core employee's stress.

Chapter 5, return and profit sharing mechanism for real estate follow-up investment. As to return mechanism: Principal was follow-up investor's money, return was the lowest requirement for follow-up investment, and a scientific and reasonable return mechanism could continuously boost follow-up investor's confidence in project and ensure fund security and project risk controllable. Return frequency, amount and ratio were the key for design of return mechanism. Profit sharing mechanism mainly included status analysis and optimization of profit sharing condition, time node and frequency.

Chapter 6, leverage and bottoming. How many real estate enterprises carry out leverage? What is the leverage rate? How many real estate enterprises carry out bottoming? What is the result of bottoming? What is the result of leverage and bottoming in the upward and downward cycles of the real estate market?

Chapter 7, case analysis, implementation effect and optimization of follow-up investment.

Chapter 8, conclusions and suggestions. Research findings of the

implementation effect of real estate follow-up investment system were summarized, the final follow-up investment mechanism was presented and suggestions for further research were given according to development characteristics of Chinese real estate industry.

1.3.4 Technical Route

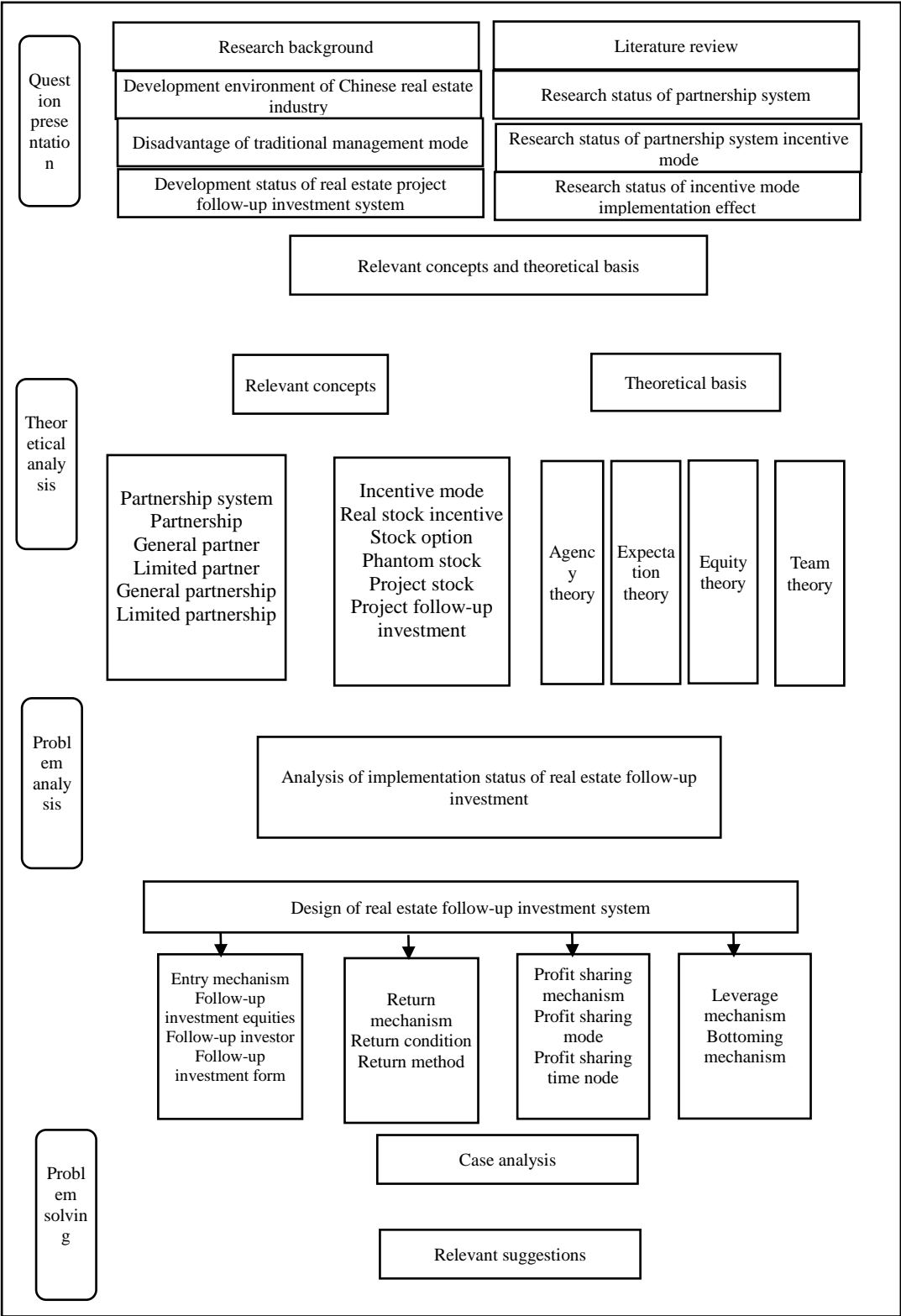


Fig. 1.5 Technical Route

1.4 Research Method and Innovation Point

1.4.1 Research Method and Data Source

Based on normative analysis, this research focused on empirical analysis, strived to ensure reasonability of research conclusion using comparative study, integrated various analysis methods and combined with sequence of research contents. The following research methods are adopted:

(1) Literature research method

From a perspective of industry, documents on follow-up investment system and its application in the real estate industry were combed. From a perspective of enterprise, real estate follow-up investment system was an incentive method for enterprise. Thus, documents on enterprise incentive system were combed to identify the primary purpose of incentive system and provide a research basis for oriented design of real estate follow-up investment system. From a perspective of project, real estate follow-up investment system has the stage of entry, return, profit sharing and withdrawal. Domestic and overseas research findings of real estate follow-up investment system were combed and shortcomings of every stage were summarized to provide references for the determination of research direction.

(2) Comparative analysis approach

The implementation effect of real estate follow-up investment system was studied from the point of industry, enterprise and project. From the point

of industry, the implementation effect of real estate follow-up investment system in different cycles of the real estate industry was mainly analyzed. From the point of enterprise, the implementation effect of real estate follow-up investment system was analyzed based on enterprise heterogeneity. From the point of project, the implementation effect of real estate follow-up investment system was analyzed according to different types of projects. In the design process of real estate follow-up investment system, selection of reference standard for entry stage, determination of personnel range, selection of organizational form and selection of different withdrawal mechanism in the withdrawal stage should be determined through contrastive analysis.

(3) Empirical approach

In the design process of real estate follow-up investment system, follow-up investment ratio in the entry stage, upper and lower limits of follow-up investment, enterprise leverage, return condition and method in the return stage, and profit sharing condition and method in the profit sharing stage should be determined according to specific value. Thus, limit values were determined using threshold regressive model under the guidance of income and risk in order to design the scope of relevant indexes.

(4) Questionnaire method

Data of this research was originated from two aspects: One was macro data that could be acquired from macroeconomic databases such as Wind and CSMAR; the other was micro data, namely financial data and non-financial

data of follow-up investment project of different real estate enterprises. To acquire such data, questionnaire should be designed combined with research thought and content for data collection and processing.

Data source of this research is described as follows:

Research sample range: Financial statements of listed enterprises that implement project follow-up investment system and listed enterprises that do not implement project follow-up investment system among top 100 real estate enterprises;

Reference standard: Operating efficiency (growth of sales and profit) and risk control (quantity and change of defective item);

Industry data: Data of relevant governmental agencies and authoritative research institutions of relevant industries;

Project risk data: Survey data of relevant sample enterprises;

Data of sales revenue: Revenue shall be subject to financial statements of the open market; sales shall be subject to data of authoritative research institutions of relevant industries;

Other data: Data acquired through interview and questionnaire.

1.4.2 Questionnaire Survey and Case Analysis & Interview

For a full understanding of the implementation situation of follow-up investment system of the real estate industry, questionnaire survey was conducted for top management and employees from 101 out of China's top

500 real estate enterprises (China's top 500 real estate enterprises released in the official website of China Real Estate Association in 2019). Top management mainly included chairman of the board, president, CFO or Marketing VP, regional General Manager and urban General Manager and employee mainly included head of relevant functional departments of the head office and relevant responsible person of area, city and project (including investment, development, sale and finance). A total of 310 questionnaires were collected.

Meanwhile, leading enterprises such as Vanke and Country Garden and typical enterprises such as A company, J company and Z company had an in-depth interview. Combined existing research findings, top management of the head office of Vanke and Country Garden had an in-depth interview on follow-up investment system and a lot of primary data was obtained. To identify the effect of follow-up investment system on enterprise development, A company, a star enterprise that developed rapidly through the implementation of follow-up investment system, was deeply analyzed as a case in Chapter 7.

1.4.3 Innovation Point

This research mainly has the following two innovation points:

One on hand, the implementation effect of follow-up investment system in the real estate industry was analyzed mainly through case study before.

Then, the implementation effect of follow-up investment system on one or more enterprises was studied from the perspective of industry, enterprise and project. Finally, the implementation effect of follow-up investment system was analyzed systematically and comprehensively through building a macro-micro research framework.

On the other hand, design of real estate follow-up investment system has been rarely studied; while follow-up investment ratio, follow-up investment amount and profit sharing condition were mainly studied through qualitative analysis. This research tried to carry out data-based quantitative analysis of design of value-rated systems using empirical analysis model in order to ensure scientificity of research result. Meanwhile, real estate follow-up investment system was designed from the perspective of industry, enterprise and project to ensure comprehensiveness of research result.

CHAPTER 2. Theoretical Basis for Real Estate

Follow-up Investment

2.1 Principal-agent Theory

Principal-agent Theory is a main part of contract theory and principal-agent relationship refers to that one or more behavioral agents appoint and employ other behavioral agents to provide service according to an explicit or implicit agreement, endow them certain decision-making power and pay them the remuneration according to service quantity and quality. Authorizer is principal and authorized person is agent^①.

Main idea of Principal-agent Theory: Principal-agent relationship emerges with rapid development of the productive forces and volume production. On one hand, labor is further divided with the development of the productive forces and owner exercises all rights for short of knowledge, ability and energy. On the other hand, a larger group of agents with specialized knowledge emerge with specialized division of labor and they have energy and ability to exercise the rights. Due to different utility function of principal and agent, principal pursues greater wealth and agent pursues maximization of income, luxury consumption and spare time, which inevitably result in conflict of their interests. Agent's behavior probably

^① Source: *Overview of principal-agent theory*. Baidu Library.
https://wenku.baidu.com/view/e36f641249d7c1c708a1284ac850ad02de8007d1.html?fr=search-1-wk_sea_es-incomeN

damage principal's interests if there is no effective institutional arrangement.

Principal-agent relationship prevails in both economic field and social field^①.

When ownership and management are separated, if shareholder still has residual claim, company performance and development prospect will not be connected to manager's interests and consequently it is hard to motivate them to create greater surplus value for shareholder. Thus, the mechanism that shareholder with only material capital plays a posterior grade role in residual claim is confronted with unprecedented challenges as technology, knowledge and human capital gradually replace material capital and become a decisive factor of enterprise's existence and development, and distribution mechanism will be redesigned. In this case, shareholder's equity is divided into opportunity cost that shareholder must acquire to protect personal interests and risk premium that enterprise manager must bear for transferring partial equities to gain more income. Under this mode, enterprise manager replaces a part of shareholder's equities and becomes posterior grade beneficiary in the name of business partner. For this reason, they strive to create income far beyond prior and intermediate fixed income for enterprise and other shareholders for maximization of personal interests, so as to resolve the conflict between principal and agent from source. As a result, adverse selection and ethical risk occur.

^① Source: *Conflict of interest between shareholder and manager and coordination*. doc88.

<https://www.doc88.com/p-4354408149546.html>

2.2 Equity Incentive Theory

Equity incentive is an incentive mode of giving enterprise operator certain economic rights through acquiring stock rights and is an incentive method that enterprise operator can participate in business decisions, share profits and assume risks in the name of shareholder to promote long-term development of company earnestly and conscientiously^①.

Effectiveness of equity incentive is largely determined by establishment and improvement of manager market and equity incentive can play a positive role in guiding manager's long-term behavior under right conditions. Whether manager's behavior is consistent with shareholder's long-term interests is determined by not only internal interests but also external factors and manager's behavior is a result of balancing internal interest and external influence. Equity incentive is only a part of external factors and its application should be backed by various mechanisms and environments, including market selection mechanism, market evaluation mechanism, control constraint mechanism, comprehensive incentive mechanism and policy and legal environment provided by government.

For original shareholder, equity incentive is conducive to reducing professional manager's "ethical risk" for separation of ownership and management. Non-listed companies often have a sole majority shareholder and their ownership and management are highly concentrated. As a result,

^① Source: *What is equity incentive*. 66Law.cn. <https://www.66law.cn/laws/161228.aspx>

their “Three Boards” system exists in name only in many cases. With development and growth of enterprise, management will be assigned to professional manager gradually. Due to different objectives of shareholder and manager, “ethical risk” exists and manager’s behavior should be guided and restricted by incentive and constraint mechanism^①.

For employee, equity incentive is conducive to arousing their enthusiasm and fulfilling their value. The biggest problem of middle and small-sized enterprises is talent flow. Due to income gap, many middle and small-sized enterprises can hardly attract and retain high-quality managerial and scientific research staffs. Practice has proved after equity incentive is implemented, employee’s working enthusiasm improves greatly since their long-term value can be embodied by equity incentive and their loyalty increases under the restraining role of equity incentive^②.

2.3 Human Capital Property Right Theory

In essence, human capital is reflected by laborer’s intelligence, knowledge, experience, skill and health condition. Human capital and man are united as one naturally, man is naturally “an indivisible carrier of human capital” and human capital must be privately owned in terms of right. Human capital property right is the right that human capital is damaged or benefited

^① Source: *Is pledge of stock right of controlling shareholder good or bad*. TRJN.COM. <https://news.trjcn.com/askzt/485038/>

^② Source: *What is the advantage of equity incentive for employee*. Findlaw.cn. <https://china.findlaw.cn/gongsifalv/guquan/jili/1435125.html>

and it is essentially the relationship between investment and consumption of human capital among people. Human capital property right includes disposal right, assignment right and income right of the ownership of human capital^①.

Human capital property right is characterized in potential economic value and scarcity and it is closely related to personal reliability and trading property. Human capital is the result of investment and it has economic value. Its scarcity is reflected in large investment, long cycle and shortage of formation way and has the problem of uncertain externalities. Only senior and scarce labor has value of human capital and junior labor is only consumption of physical force.

Ownership covered by human capital property right cannot function on laborer but intangible resources attached to laborer only. Intangible resources refer to laborer's intelligence, knowledge, experience, skill and health condition. The right to dispose of human capital is the right to dispose of these intangible resources instead of the right to dispose of labor namely human capital carrier. The subject of human capital property right is a pluralistic human capital carrier and man is an essential owner of human capital, because

^① Source: *A discussion about definition of powers and functions human capital property right and significance*. Baidu Library.

<https://wenku.baidu.com/view/ec59ece7fc4733687e21af45b307e87101f6f8bf.html>

the investment subject of human capital is pluralistic and human capital carrier is a “natural” investor of human capital^①.

Besides ownership, capital property relation includes right relations such as right of possession, right of domination, use right, exchange right, income right and disposal right and human capital property right also includes these right relations. However, there is a basic difference between human capital and material capital: Whereas human capital is carried by man, human capital carrier’s will and behavior will have an important or decisive effect on domination and usage mode, use and exchange condition, selection of actual operation time and place, flow mode and direction, efficiency and other relations and their realization process.

Human capital property right consists of capability, equity and responsibility, which are an organic unity and constitute a complete concept of human capital property right^②.

Capability of human capital property right refers to power or function of human capital owner to their human capital and includes two aspects: One is ownership, use right, exercise power and domination right of human capital; the other is human capital owner’s function in allocation of resources.

^① Source: *Research on depreciation of human capital stock (Chinese economic paper)*. Docin.com.

<https://www.docin.com/p-2497386197.html>

^② Source: “59-year-old phenomenon” and human capital property right. Issue 04 of *Economist* in 2002-CNKI

Human capital ownership refers to that carrier of human capital has right of possession and control over their capital such as “knowledge and skills with economic value”, namely real right in legal sense and it refers to the relationship between human capital and human capital carrier only. The owner of human capital owns actual domination right, exercise power and use right to ensure and realize their dominant role in human capital.

Human capital use right refers to that the subject of human capital property right uses human capital in the right range. Use right and ownership can belong to the same subject or different subjects. Human capital use right is a special capability of human capital property right. If other subjects than carrier need to input human capital in economic or non-economic activities, they often need to trade with human capital owner, bargain according to quantity and need and purchase use right with the agreed time. Nevertheless, how to use knowledge and skill and how many and what rights are exercised are controlled by carrier^①.

Human capital domination right refers to right of using human capital in real life. That is, human capital owner is free in the perfect labor market to fix the price of labor.

^① Source: *Exploration of human capital property right* (model essay of human resource management). Docin.com. <https://www.docin.com/p-2497738018.html>

Human capital allocation right refers to right of human capital owner to allocate economic resources, including material resources and other human resources, in the activity range^①.

Equity of human capital property right refers to effectiveness of human capital property right to the subject or its advantage and is reflected by income of material object or currency, direct use of labor and satisfaction in other aspects. It is income right in human capital property right and the focus of human capital property right. Human capital property right is a means only and it is aimed at gaining human capital income, namely equity of human capital property right. Recognizing human capital income right has a great incentive effect on the subject of human capital property right.

Equity of human capital property right includes compensation for labor consumption, namely wage, and residual claim of enterprise, which is an important part of human capital income right.

Human capital property right is different from material capital property right. In modern company, operator exercises control and domination right and owner does not exercise control after material capital investor inputs capital, namely “separation of ownership and management”. However, human capital cannot be separated from its carrier. Thus, human capital should own

^① Source: *Difference between human capital and material capital*. Baidu Library.
<https://wenku.baidu.com/view/7fe8249c32d4b14e852458fb770bf78a65293afe.html>

the above two rights, namely wage and residual claim, and the essence of human capital income right is to own residual claim^①.

Human capital income right is also reflected in income level. When human capital maximizes the role, different human capital stocks can produce different incomes. Low human capital stock produces low income and high human capital stock produces high income. It is because the degree of scarcity of different human capital stocks is different. The scarcer the more income can be produced. Besides, human capital stock makes different contributions. Generally speaking, the more human capital stock is the greater contribution is.

Responsibility of human capital property right refers to that the subject of human capital property right not only enjoys capability and equity of human capital property right, but also must assume the responsibility. On one hand, it is determined by property right, as a characteristic of behavior right of mutual economic interest relationship among people, and it reflects the principle of incentive compatibility. On the other hand, if human capital property right can be exercised without any constraints, behavior of property right subject will damage other economic individuals and consequently overall economic efficiency cannot improve. Thus, human capital owner must abide by such mutually recognized relationship or contractual relationship and should bear

^① Source: *Analysis and discussion of residual claim of human capital* (model essay of economics theory). Docin.com. <https://www.docin.com/p-2496141303.html>

the cost of breaching such contractual relationship. As a property relation, the subject of human capital property right should assume the responsibility corresponding to a certain behavior relation, so as to show the behavior relation equal to responsibility, capability and equity reflected by human capital property right as a behavior right.

Capability, equity and responsibility of human capital property right are not isolated but constitute a complete system. Human capital property right will be incomplete or nonstandard if any is missing, so a perfect institutional environment is needed to ensure completeness of human capital property right. Excess constraint of external systems to human capital owner or absence of necessary guarantee for basic rights may result in incompleteness of human capital property right easily^①.

Scientific and reasonable arrangement of human capital property right is helpful to improve use efficiency of human capital to improve enterprise's economic performance. Essentially, human capital property right is to endow human capital with equivalent capability, equity and responsibility so that such factors as human capital and material capital jointly get involved in income distribution and risk assumption^②.

^① Source: *Incompleteness of human capital property right and operator behavior game - image & text*. Baidu Library. <https://wenku.baidu.com/view/869242ce4ad7c1c708a1284ac850ad02df8007ce.html>

^② Source: *Analysis of relationship between material capital and human capital*. Baidu Library. <https://wenku.baidu.com/view/cbd66028a65177232f60ddccda38376bae1fe06e.html>

2.4 Amoeba Theory

“Amoeba Management” is proposed by Inamori Kazuo, who initiates a new management mode: Enterprise is divided into many small groups and provides these small groups with management right so that they could play their roles and realize effective management and operation. It is very similar to real estate enterprise, which develops project and calculates economic benefit and whose team also can be divided according to project.

Core idea of Amoeba Theory: With Amoeba leadership as the key standard, all Amoeba organizations develop corresponding plans so that all employees at the production line play a leading role and run company at master consciousness to achieve the goal of all staff operation. Generally speaking, company is divided into several Amoeba teams to improve management level. The key of Amoeba management is that the aforesaid mode could guide employees to take the initiative in work and naturally transfer pressure from outside to inside the market through independent accounting.

To be specific, there are two types of Amoeba mechanism:

(1) Motivational mechanism

Amoeba management mode requires all employees to cooperate actively and input great passion to avoid conflict between labor and capital, harmonize labor relations among workers and ensure efficient operation of company. In

the implementation process, it requires all workers to cooperate with each other to avoid loss of basic company interests and company and employee should maintain a partnership. Employee is not under manager's direct restrictions and general staffs can participate in operating management to satisfy personal need, so as to enhance personal value while making contributions to company and provide an important impetus for future development of company.

Make more employees realize that they can participate in management and have the right to voice their opinions and suggestions and participate in decision-making. Continuously enhance employee's sense of business through sharing information and management idea and ensure all team members can participate in operating management to achieve the goal of "total involvement", so as to fully motivate every employee's enthusiasm, enhance their potential to the greatest extent, improve innovation ability and raise economic added value of company.

(2) Market pressure transmission mechanism

External market environment has a very important impact on company's economic benefit. If pressure in the complicated and changeable market environment can be effectively regulated according to practical situation and measures can be adopted to reach the market development requirements, market pressure transmission mechanism can play a leading role in market competition. Amoeba independent accounting system is essentially an

important market-linked mechanism and Amoeba organization, as the profit center, should shoulder the responsibility for profit and loss. Company connects internal transaction to market-linked independent accounting system using Amoeba mode and internal value chain follows the principle of investment minimization and economic benefit maximization; otherwise, internal “customer” will choose not to purchase service. Thus, external market competition can reflect internal competition in order to make a quick response to change in external condition, make adjustments quickly according to self-development characteristic, satisfy the standard for survival environment and promote sustainable development.

Main idea of Amoeba Theory: Divide organization into small groups, run them market-linked independent accounting system, cultivate leader with management awareness, enable all staffs to participate in operating management to realize “total involvement”, divide enterprise into small Amoeba organizations, cultivate leader with management awareness and run every Amoeba organization independently. Assist total-involved operating management using operational accounting, practice authorized management mode and enable operator to timely and clearly master business operation condition according to accounting statement.

Relevant theoretical researches have been carried out for management mode under Amoeba Theory.

Sullivan C (1992) thought it feasible to adopt Amoeba management

mode during enterprise development and effective for business accounting. This mode could ensure scientificity and accuracy of calculating company performance, be fully displayed in all Amoeba organizations and actively contribute to all employees to get returns.

Inamori (2007)'s research showed that Amoeba management mode was challenged by how to integrate loose and independent Amoeba units, ensure their joint cooperation and avoid excessive restriction.

Li Qingli (2010) analyzed Amoeba management mode to analyze Japanese management system from the perspective of time and cost, identify unique cost recovery method of Amoeba, or calculate how to effectively integrate excellent management accounting experience in time and cost into Japanese company management using unit time, which Chinese company should keep studying. Meanwhile, Japan adopted management accounting thought from source, which was of great reference significance for enhancing management ability of Chinese company.

Fan Songlin (2015) considered an important method of Amoeba management mode was to calculate and evaluate all employees' performance using unit time.

Besides, company can be benefited from the use of Amoeba Theory in the following aspects:

(1) Establish market-linked accounting system of all departments.

Business management principle is "to maximize sales and minimize the cost".

For this purpose, divide organization into small units and carry out departmental accounting management in response to market change;

(2) Cultivate talents with management awareness. After management right is delegated, leader of small unit will build “operator awareness” and have operator’s sense of responsibility. Members of small units will turn their attitude from “passive” as employee to “active” as leader and strive to improve performance, which is the start of building operator awareness;

(3) Realize total involvement management. If every employee can contribute to their Amoeba organizations and company at their posts and Amoeba leadership and its members set a goal and realize the significance of work to achieve the goal, all staffs can find joy and value in work and work hard to jointly participate in management for company development^①.

Amoeba management can enhance employee’s enthusiasm for participating in management, boost their impetus and cultivate talented manager with entrepreneurial spirit. Furthermore, small groups run by Amoeba are a system for thorough examination of efficiency and details are transparent due to clear responsibility.

2.5 Contribution of Research on Chinese Real Estate Follow-up Investment Mechanism to the Development of Existing Theories

Chinese real estate follow-up investment system is a specific mode

^① Source: *Amoeba Management*

developing in a specific stage of the Chinese real estate industry, which has the following characteristics:

1. Very distinctive nationality characteristic: In China, such a fast-growing economic entity;
2. Very distinctive industry characteristic: Widely adopted in the fast-growing real estate industry;
3. Very distinctive stage characteristic: The industry has showed an upward trend until now.

Follow-up investment system has been adopted by neither country nor industry until now and it is a kind of business system innovation in the development process of China's economy. Follow-up investment theory is based on traditional organization theory (principal-agent theory and Amoeba theory) and incentive theory (equity incentive theory and property right of human capital theory), but it new development and extension based on such theories.

Among all existing theoretical researches, follow-up investment theory has been rarely studied abroad and most domestic researches focus on case analysis instead of systematic study.

2.5.1 Industry Background and Primary Cause of Chinese Real Estate Follow-up Investment System

Follow-up investment system emerges under a profound background of

the Chinese real estate industry:

1. Chinese real estate development market (incremental market) has a great capacity and development potential. Although relevant authorities have continuously introduced cooling measures and regarded “housing residence instead of vicious speculation” as a main principle of industry supervision in recent years, market development is still at a high level. Urban renewal and regional development become a new growth trend of industry.

2. The competition among development enterprises becomes increasingly fierce with the enhancement of government regulation measures. Scale becomes the basic condition for future development of development enterprise. “High turnover” is the only way for development enterprise to achieve market size and market competitiveness.

3. Professional manager system is the precondition for building “high turnover” model; decision efficiency and risk control are two basic conditions for achieving high turnover; while suitable organization chart and incentive measure are the basic guarantee for high-quality development arising from high turnover. The primary cause of follow-up investment system is that development enterprise needs to adopt “high turnover” model. There is a close causality between the two.

Development enterprise hopes to solve four matching problem problems of “high turnover” through follow-up investment system:

1. Matching of organization structure: Despite increase of development

project and continuous growth of scale, traditional centralized management mode of enterprise can no longer adapt to development need. Due to regionalism of real estate project development, organization structure of enterprise changes from two-level control (headquarter-project) to three-level control (headquarter-city-project) and four-level control (headquarter-region-city-project). Except multi-level control model, some enterprises also try Amoeba mode (headquarter- Amoeba business entity). After change of organization structure, traditional management mode is bound to upgrade for synergism between rights and responsibilities at different levels.

2. Balance between acquisition of business opportunity and risk control after upgrade of organization structure: Project acquisition and risk control largely depend on professional manager's ability and judgment. However, professional manager is not responsible for success or failure of project traditionally and cannot assume project risk together with enterprise. Meanwhile, absence of adequate incentive for market opportunity also may result in dual risk of ability and morality.

3. After increase of enterprise scale, core talent becomes the key of enterprise development. However, traditional incentive mode lacks project-related strong incentive measure except short-term salary incentive and long-term equity incentive. A new incentive system can be adopted to exploit core talent's subjective initiative and enhance their work efficiency.

4. Middle and basic-level team is the soil to cultivate core managerial talent and the actual implementer of product and the quality assurer. Middle and basic-level team belongs to project, but their incentive is not directly connected to project but company and a new incentive system is needed to cover shortcomings of traditional professional manager system in stabilization and development of middle and basic-level team.

2.5.2 New Extension of Research on Traditional Organization Theories

Follow-up investment system is based on principal-agent theory and separation of management right and ownership and reallocation of rights and responsibilities. As to institutional improvement, it is a new development based on traditional partnership system or Amoeba organization, so it has basic characteristics of traditional organization theories.

Meanwhile, follow-up investment system enlarges the extension and connotation of traditional theories and has the following obvious new characteristics:

1. Short period: Once traditional partnership system or Amoeba organization is set, it takes a long time to implement them, at least a year. Nevertheless, real estate project development is staged, so it takes much less time to implement project-based follow-up investment system;

2. Virtual organization: Follow-up investment system is often concurrent with enterprise organization and characterized in “virtual organization”. Based

on project, it gathers related personnel of different departments and organization will be dissolved after project implementation. It is different from the precondition for implementation of traditional partnership system or Amoeba organization.

3. Flexibility: Follow-up investment system is closely tied to project, but not all projects adopt follow-up investment system due to different attributes. Some projects of an enterprise follow up investment, but some need not follow up investment. Thus, follow-up investment system is much more flexible than traditional partnership system and Amoeba organization;

4. Instability: High instability of the real estate industry directly affects the effectiveness of follow-up investment system. Therefore, follow-up investment system is often adjusted and optimized in the implementation process, which is quite different from stability of traditional partnership system or Amoeba organization.

The four characteristics actually enrich traditional organization theories and raise new requirements for the development of traditional organization theories when enterprise deals with the rapidly changing market competition.

2.5.3 Blank Spot of Existing Incentive Theories

Follow-up investment system not only changes form of enterprise organization, but also greatly promotes change of enterprise incentive system. Traditional incentive theory, based on human capital property right theory,

stresses the identity of rights and responsibilities, which can be reflected by follow-up investment system. However, follow-up investment system has new elements and characteristics compared with traditional incentive theories:

1. Traditional incentive systems often tie employee and short-term KPI (salary and bonus) to enterprise's long-term development (equity incentive), but an incentive system in the identity of investor and linked to a project cycle. As a matter of fact, it fundamentally changes the incentive objective's identity: Traditional incentive objective is enterprise employee; while the incentive objective of follow-up investment is investor, even though they are from enterprise.

2. In traditional incentive systems, salary and bonus belong to short-term incentive, but in practice, they show characteristics of "salary" more than "strong incentive". Equity incentive belongs to long-term incentive and the incentive effect weakens. Follow-up investment system is a "strong incentive" mode featured by definite indicator, direct incentive and perceptibility obviously higher than that of long-term equity incentive.

3. Traditional incentive system is rarely characterized in "risk pooling"; while follow-up investment system has the distinct characteristics of "joint venture". That is, employee assumes the risk of project failure when motivated.

4. Funding and leverage are rarely involved in common incentive systems. Providing follow-up investor with funding and investment leverage

and collecting interest from funding and investment leverage further intensifies the “joint venture” characteristic of follow-up investment system and better identifies dual identities of participants of follow-up investment system: Enterprise staff and project investor.

5. Bottoming emerges with “risk pooling”. Although that is still no uniform operation mode, bottoming or partial bottoming indicates that “internal investor” that participates in project follow-up investment is actually different from “investor” in common sense, which is a new change caused by this system.

6. Compared with equity incentive, participant of follow-up investment system just has some restricted rights, right to yields instead of management right and decision right, and they have no shareholder’s right for common equity incentive. Accounting treatment of follow-up investment incentive and equity incentive is different and it has an obvious impact on financial statements of enterprise.

In general, follow-up investment system theory is based on traditional organization theory and incentive theory, but it adds new elements. In the tense market competition, studies of follow-up investment system and brand new follow-up investment theories formed based on this have practical significance and far-reaching development significance.

CHAPTER 3. Follow-up Investment Status Analysis of Chinese Real Estate Enterprise

3.1 Basic Introduction to Follow-up Investment of Chinese Real Estate Enterprise Project

Real estate has played a decisive position in China's economy since housing reform in 1998 and has a great impact in many aspects such as GDP, finance and investment. In the "golden age" of the real estate industry, real estate enterprise usually mitigated risks through "headquarter command and front-line execution" in the stable market.

But in the "silver age" of soaring housing price and rapid industrial scale, the market environment changed dramatically with policy tightening such as "housing residence instead of vicious speculation" and financing environmental degradation. If traditional management mode was still adopted, lagging decision would be made and it was hard to for the headquarters to control the market accurately, which may result in in accurate decision and increase enterprise risk.

With change in economic environment and policy environment, profit rate and return rate of the real estate industry gradually recovered to social average and shareholder was anxious about company operation status by valuing both return rate and share price. For employee, traditional business model made enterprise objective inconsistent with employee objective,

employee lacked task motivation and creativity, and a great many mid-level staffs and senior managers were prone to quite due to low pay, turnover of grass-roots staffs occurred frequently, and enterprise could not maximize the efficiency and create more values due to imperfect incentive system. In view of this, in the process of organizational structure adjustment, traditional real estate enterprise must consider how to maintain shareholder's confidence and motivate core talent to give their subjective initiative into full play to continuously create value for enterprise.

3.2 Overview of Development Status of Real Estate Follow-up Investment System

The academic field and the practice field has kept studying development pattern of the real estate industry in the course of development.

In the practice field, project follow-up investment system has been extensively applied. As shown in Table 3.1: Among real estate enterprises with top 10 year-on-year growth rate of sales in 2017, those with fastest performance growth and markedly rising ranking practiced project follow-up investment system, including Zhongnan Group, Sunshine City Group, ACTIVE REAL ESTATE, Zhongliang Real Estate Group, BRC Development and JUNFA REAL ESTATE.

Table 3.1 Performance of real estate enterprises with top 10 year-on-year growth rate of sales in 2017

Real estate enterprise	Performance ranking in 2016	Performance ranking in 2017	Sales in 2016 (one hundred million Yuan)	Sales in 2017 (one hundred million Yuan)	Year-on-year growth rate of sales in 2017 (%)	Whether follow-up investment system was implemented in 2017 and before
ACTIVE REAL ESTATE	97	43	161.3	428.1	165.4	Yes
GENTLE GROUP	32	17	400.1	1007.2	151.7	No
Sunac China	7	4	1500.3	3620.0	141.3	No
Zhongliang Real Estate Group	40	25	336.8	757.9	125.0	Yes
Midea Real Estate Group	78	41	212.7	450.1	111.6	No
BRC Development	39	30	339.1	689.1	103.2	Yes
JUNFA REAL ESTATE	86	50	190.1	381.3	100.6	Yes
Zhongnan Group	23	18	502.3	963.2	91.8	Yes
Sunshine City Group	26	19	487.2	915.3	87.9	Yes
Binjiang Group	42	34	330.0	615.1	86.4	No

Data source: RESST and Wind databases

Most of real estate enterprises with top 10 growth rate of sales in 2018 such as Jiayuan Group and FANTASIA GROUP started to fully implement follow-up investment system in 2017 and achieved a remarkable effect.

Others such as Shangkun Property started to implement follow-up investment system in 2015.

Table 3.2 Performance of real estate enterprises with top 10 year-on-year growth rate of sales in 2018

Real estate enterprise	Performance ranking in 2017	Performance ranking in 2018	Sales in 2017 (one hundred million Yuan)	Sales in 2018 (one hundred million Yuan)	Year-on-year growth rate of sales in 2018 (%)	Whether follow-up investment system was implemented in 2018 and before
Jiayuan Group	152	38	79.2	875.5	1005.43	Yes
Shangkun Property	189	91	51.5	229.5	345.63	Yes
Hongyang Real Estate	95	52	178.1	441.2	147.73	Yes
Minjie Real Estate	85	64	211.6	463.8	119.19	No
Hengtai Real Estate	136	97	102.1	220.3	115.77	No
New Hope Real Estate	112	69	141.5	303.1	114.2	Yes
Datang Real Estate	109	77	144.7	308.6	113.22	Yes
Dongyuan Real Estate	72	49	262.6	548.7	108.95	Yes
FANTASIA GROUP	108	88	145	301.7	108.07	Yes
HUAYU GROUP	94	58	180.8	375.2	107.52	Yes

Data source: RESST and Wind databases

From the point of sales, most of real estate enterprises with sales up to 200 billion Yuan in 2018 implemented project follow-up investment system. For example, FUTURE LAND has gradually reformed project follow-up investment system since 2014, gained rapid business growth in 2016 and achieved sales up to 100 billion Yuan in 2017 with a year-on-year growth rate of 83.9%. In 2018, its sales reached 200 billion Yuan with a year-on-year growth rate of 74.91%. As shown in Fig. 3.1, sales of Longfor Properties, Xuhui Group and Gemdale Corporation kept high in 2017 and 2018, since project follow-up investment system played a decisive role. Meanwhile, Country Garden Group and Vanke Group are the first enterprises implementing real estate partnership system and main pushers of project follow-up investment system in the real estate industry. Different enterprises stayed the same in design of follow-up investment system and had their own characteristics combined with operation status and project nature^①.

^① Source: *Introduction to Country Garden Group & Introduction to Typical Project*. Baidu Library. <https://wenku.baidu.com/view/5107f01a1511cc7931b765ce0508763231127424.html>

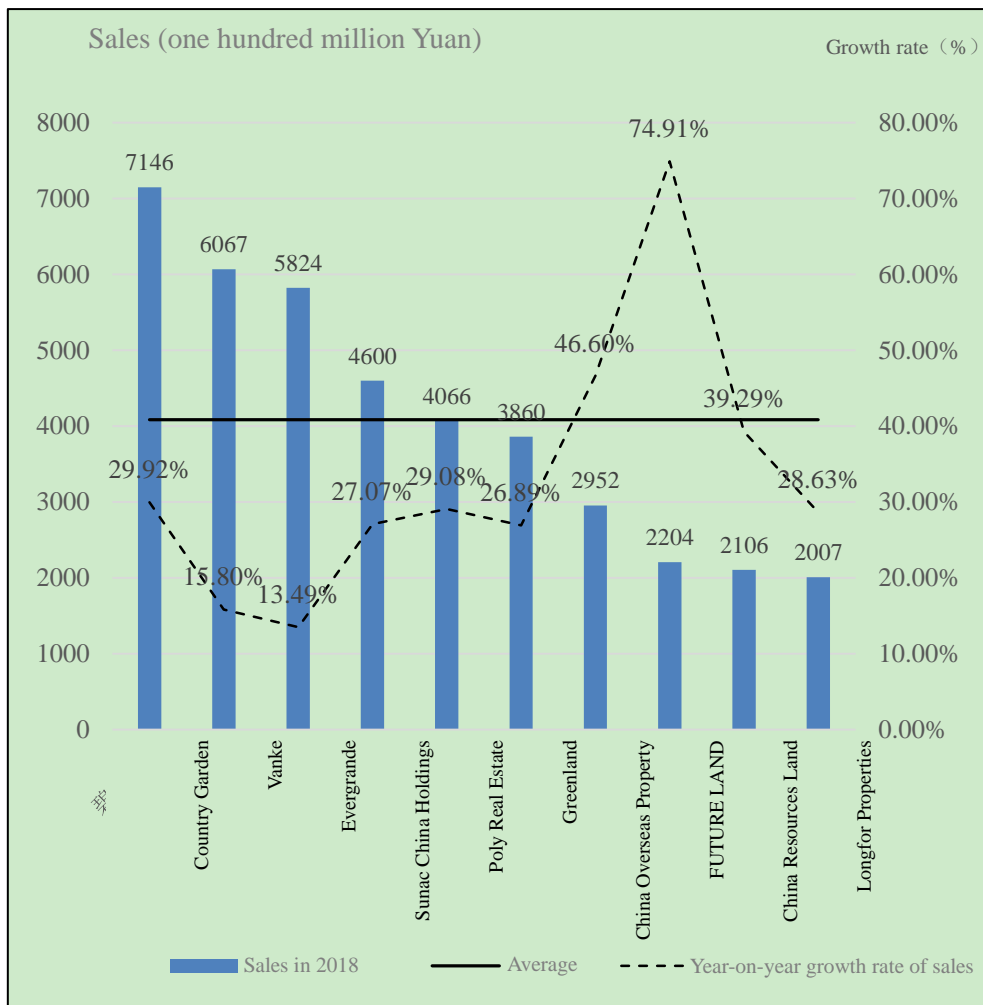


Fig. 3.1 Comparison of real estate enterprises with sales up to 200 billion Yuan in 2018 and year-on-year growth rate

Note: Enterprises in the table that implement follow-up investment system include Country Garden, Vanke, Poly Real Estate, Greenland Holding, China Metro-Rural Holdings and China Resources Land; those that do not implement follow-up investment system include Evergrande Real Estate, Sunac China, China Overseas Property and Longfor Properties.

Data source: RESST and Wind databases

In the academic field, early follow-up investment was construed as “leading investment + follow-up investment” mode of equity crowdfunding. That is, in the crowdfunding process, an experienced professional investor is the leading investor and many ordinary investors are follow-up investors, who

make up a joint investment system and follow up leading investor's investment. From the angle of real estate, project follow-up investment has its own meaning, namely employee uses own funds to invest in a project, which was invested by company unilaterally, shares investment income and assumes investment risk. In this case, company can share risk and profit of specific project with relevant responsible persons and reduce the risk in turnover of managerial staff to some extent. Follow-up investor can share profit of profit or gain benefit, which signifies greater responsibility and constraint^①. Real estate enterprise practices follow-up investment system with the intention to not only optimize the decision-making process and improve business efficiency, but also improve incentive system, retain talents to the greatest extent, bind enterprise benefit with employee benefit and closely connect company's operating efficiency and management team's benefit in order to control risk and attain sustainable development and prosperity.

According to traditional investment model and real estate development characteristic, real estate follow-up investment system can be divided into entry mechanism, return mechanism, profit sharing mechanism and withdrawal mechanism. However, follow-up investment system should be designed to fit enterprise strategy, project schedule, organizing ability and performance management status so that real estate follow-up investment

^① Source: *Roll up your sleeves and work together: A discussion about project follow-up investment system*. SOHU.COM. https://www.sohu.com/a/127843074_465600

system plays a role in realizing enterprise strategy and guiding management. Yet, implementation and improvement of follow-up investment system, as a new incentive system, remains to be further studied.

In 2012, Country Garden obtained notable results from the implementation of follow-up investment system. In 2014, Vanke announced to implement business partnership system with project follow-up investment system included and created a trend of follow-up investment of the real estate industry. In the following five years, state-owned enterprises and private enterprises such as Poly Real Estate, China Merchants Shekou Industrial Zone Holdings, Greenland Holding, BRC GROUP and Sunshine City Group followed the trend successively. Until 2019, at least 40 out of China's top 100 real estate enterprises have implemented project follow-up investment system and at least 30 out of enterprises with top 50 brand value have done so. Brand value of enterprises that implemented follow-up investment system such as Kaisa, Fusheng, KWG Property, Aoyuan, Xinli, Dongyuan, China Metro-Rural Holdings, Agile Property and Zhongliang ranked among top 50 in China from 2016 to 2018.

Enterprises that implemented follow-up investment system had market share of 14.77%, 20.12% and 28.13% from 2016 to 2018 according to sales area and 20.31%, 27.48% and 32.32% according to sales amount. It can be seen that market share of enterprises implementing follow-up investment system gradually rose in three years. In most cases, market share of

enterprises that implemented follow-up investment system grew faster than those that did not implement follow-up investment system, more enterprises had rising market share among those that implemented follow-up investment system and more had slowly rising and even declining market share among those that did not implement follow-up investment system.

3.3 Development History of Follow-up Investment of Chinese Real Estate Enterprise Project

It took about 7 years for project follow-up investment of Chinese real estate enterprise to grow out of nothing and such real estate enterprises as Vanke and Country Garden took the lead in implementing project follow-up investment system. Due to industry benchmarking effect and remarkable follow-up investment effect of real estate project, project follow-up investment was quickly popularized in the real estate industry and received extensive attention of the real estate industry and other circles as a new employee motivation and internal financing mode. On the whole, project follow-up investment of real estate enterprise passes through three stages: Exploration, development and standardization.

3.3.1 Exploration Stage of Project Follow-up Investment (2012-2014)

3.3.1.1 Characteristic of Exploration Stage

Project follow-up investment in the exploration stage is characterized in total involvement, mandatory follow-up investment of core employee and follow-up investment of almost all real estate projects. “Achievement sharing plan” released by Country Garden in 2012 was an incentive plan binding top management benefit with enterprise benefit and giving rewards by cash and corporate stock. Withdrawal of funds for rewards provided references for subsequent project follow-up investment, so it was an exploration process.

Project follow-up investment of Chinese real estate enterprise began from Vanke’s board meeting in March, 2014. Vanke called the first meeting of the 17th board of directors on March 28, 2014, in which a proposal on establishing project follow-up investment system was approved, namely “business partnership” plan: Vanke’s general staffs could purchase stocks to hold shares at company level and employees of regional company could establish a project company to invest in regional real estate project to hold shares at project level. For all projects newly increased after April 1, 2014, except reconstruction of old city and some special projects, front-line company management and project manager (manager or above) were required to follow up company investment voluntarily and other employees than

director, supervisor and senior manager could participate in follow-up investment voluntarily. Follow-up investor could share profits^①.

In October, 2014, Country Garden released “united sharing plan”, which entirely focused on project-based equity incentive plan compared with 2012 “achievement sharing plan”. The plan took project follow-up investment as the core and involved equity distribution of specific project. “United sharing plan” was a partnership mode of project follow-up investment that management was forced to invest and employee followed up investment voluntarily. What’s more, Country Garden could provide employees with soft loan and help them to get greater return with leverage. United sharing plan, an updated version of achievement sharing plan, greatly aroused management and core employee’s master consciousness. As follow-up investor turned from temporary worker to master and changed their efficiency-oriented “operation awareness” to profit-oriented “management awareness”, Country Garden’s vigor burst abruptly^②.

Before follow-up investment took into initial shape, Vanke just adopted company-level equity incentive, employee stock ownership and share option. A company implemented follow-up investment a few years ago and introduced relevant documents and employees could invest in more than

^① Source: *Secrets of Vanke’s project follow-up investment system and partnership system of industry chain*. Baidu Library. <https://wenku.baidu.com/view/d9b281a60a1c59eef8c75fbfc77da26924c59634.html>

^② Source: *How did Country Garden achieve sales of 300 billion Yuan through “united sharing plan”?* SOHU.COM. https://www.sohu.com/a/127105250_120734

twenty projects voluntarily. In 2003, this company distributed 10% of projects and added leverage to employee's investment without collecting interest. Even though employee quit, they got due return. Since it was not called "follow-up investment" then and it was not searchable, it was not regarded as the initiator of follow-up investment system of real estate enterprise but just a prototype.

Partnership system (follow-up investment system) had a great impact on Vanke and some even thought it helped kill barbarians in "the fight of treasure". Vanke opened up the age of follow-up investment and expanded its ability. It was disclosed in Vanke's semiannual report of 2016 that not only did business partnership system stabilize the team and effectively relieve the impact of equity event on business, but also follow-up investor had showed the awareness and role of partner in accelerating project cycle, saving cost and promoting sales since follow-up investment system was implemented. The average time from project approval to commencement decreased by 4 months, that from project approval to opening decreased by 5.4 months and marketing costs kept declining.

In 2016, a regional president of Country Garden earned more than 100 million Yuan. Like Vanke, follow-up investment significantly improved such indexes as turnover rate and profit rate of Country Garden and Country Garden doubled its sales in 2016 due to quick turnover and good market condition.

Besides Country Garden, real estate enterprises that implemented follow-up investment system early grew fast in the past few years.

Table 3.3 Change in income of typical real estate enterprises implementing follow-up investment system

Enterprise name	Start time of follow-up investment	Name	Year-on-year growth rate of sales	Ranking
Beijing Captital Land	End of 2012	Project follow-up investment plan	28.8%	-6
Vanke Group	April, 2014	Business partnership+ project follow-up investment	21.80%	0
Xuhui Group	July, 2014	Business partnership plan	40.13%	5
Country Garden	October, 2014	Achievement sharing + united sharing	12.14%	-1
Modern Land	January, 2015	Intelligent partnership plan	53.85%	5
Gemdale Corporation	February, 2015	Core employee investment project company plan	27.64%	3
Yuexiu Property	February, 2015	Employee incentive plan	12.42%	-5
China Metro-Rural Holdings	February, 2015	Co-creation, joint adventure and sharing” incentive plan	29%	4
Jinke Group	June, 2015	Project follow-up investment plan	55.36%	1
Dima	June, 2015	Project follow-up investment plan	98.15%	9
Zhongliang Holdings	August, 2015	Joint investment plan	13.10%	-2
Guangyu Group	January, 2016	Employee follow-up investment plan	11%	-4
Xiangsheng Group	January, 2017	Co-creation and sharing	242%	21

Table 3.3 Change in income of typical real estate enterprises implementing follow-up investment system (to be continued)

Enterprise name	Start time of follow-up investment	Name	Year-on-year growth rate of sales	Ranking
Greenland Holding	February, 2017	Project follow-up investment plan	21.05%	-2
Sunshine City	May, 2017	“Win-win cooperation” plan	87.87%	7
Agile Property	May, 2017	Future sharing plan	63.35%	-3
China Merchants Shekou Industrial Zone Holdings	June, 2017	Project follow-up investment plan	51.38%	2
KWG Property	July, 2017	Project follow-up	60.15%	2
Rongsheng Development	November, 2017	Creation and sharing plan	37.65%	-4
Rongan Real Estate	December, 2017	Project follow-up investment plan	135.56%	49
BRC Development	December, 2017	Blue sharing	51.17%	3
Poly Development	December, 2017	Project follow-up investment plan	28.57%	0
Huafa	December, 2017	Project follow-up investment plan	58.37%	11
Zhongzhou Holdings	January, 2018	Project follow-up investment plan	15.94%	-3
Fusheng Group	March, 2018	Gold seed plan +business partnership	56.76%	3
Jinghan Group	March, 2018	Project follow-up investment plan	1.05%	-9
Meihao Property	March, 2018	Project follow-up investment plan	233%	16
Binjiang Group	July, 2018	One hundred billion sharing plan	-0.71%	2
Jiangsu Zhongnan Construction Group	December, 2018	Real estate follow-up investment	15.59%	2
Songdu	March, 2019	Business partnership	19.70%	10

Data source: Official website of China Real Estate Association

3.3.1.2 Problems Existing in the Exploration Stage

Lacking withdrawal mechanism and simple follow-up investment mode exist in this stage. Although follow-up investment reassures the people and arouses employee's working enthusiasm, withdrawal mechanism is needed.

First, withdrawal of project follow-up investment plan should be specified. Whereas real estate enterprise is exploring project follow-up investment, employee knows a little about it. In 2014, Withdrawal of follow-up investment of project follow-up investment plan of Vanke and Country Garden was not specified in the beginning. In 2015, they modified the plan and specified withdrawal condition and mode and capital allocation.

Second, employee follow-up investment mode is simple. In 2014, project follow-up investment plan of Vanke and Country Garden required employee to invest through establishing a partnership. Vanke's investment diagram is shown below. With deep implementation of follow-up investment in real estate project and enriching of project follow-up investment experience, these problems were gradually solved.

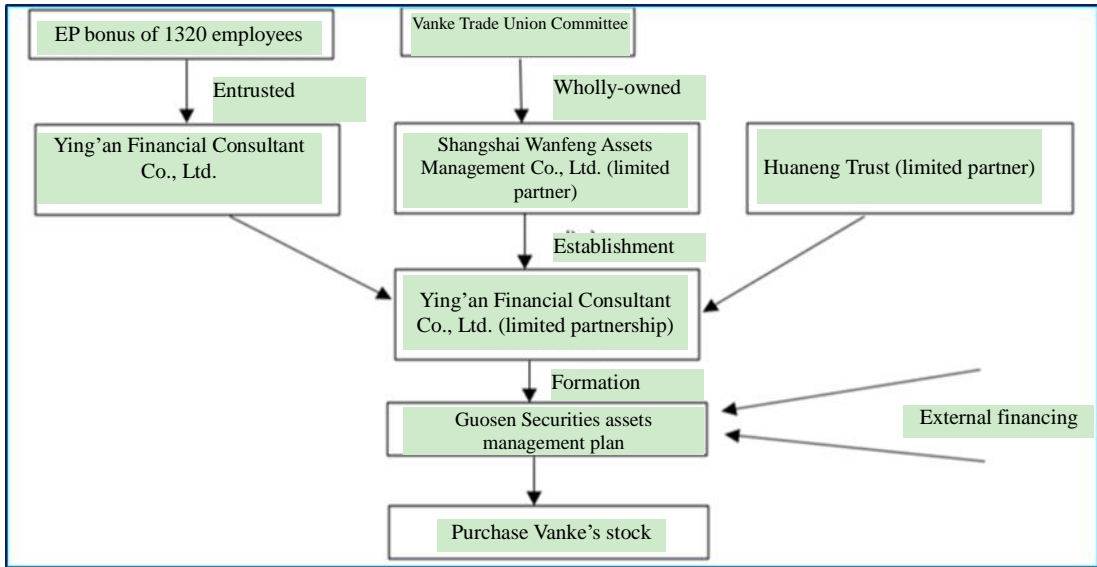


Fig. 3.2 Follow-up investment procedure of Vanke

3.3.2 Development Stage of Project Follow-up Investment (2015-2017)

3.3.2.1 Characteristic of Development Stage

Follow-up investment in real estate project in the rapid development stage is characterized in rich follow-up investment mode, different types of real estate enterprises implementing follow-up investment and improvement of follow-up investment procedure. Since Vanke and Country Garden made good results in project follow-up investment in 2014, other real estate enterprises followed successively. During 2015 to 2017, Gemdale Corporation, Modern Land, Yuexie and China Metro-Rural Holdings introduced project follow-up investment plan. During the same period, state-owned real estate enterprises such as China Merchants Shekou Industrial Zone Holdings and Yuexiu started to implement project follow-up investment and they organized employees to pay money through fund and assets management and invested

the money in development and operation of follow-up investment project. The implementation of project follow-up investment helped state-owned real estate enterprise to broaden the way of employee follow-up investment. In the development stage, Country Garden's "updated version of united plan", Jinke's "project follow-up investment plan" and Zhongliang Holdings's "joint investment plan" described the entire process of follow-up investment project from entry to implementation and withdrawal and specified scope, follow-up investment mode, follow-up investor selection, follow-up investment management, profit distribution and withdrawal. Relative to the exploration stage, project follow-up investment procedure was gradually perfected and follow-up investment plan was more detailed.

3.3.2.2 Problems Existing in the Development Stage

First, follow-up investment plan for different real estate projects of different real estate enterprises are similar. As more and more real estate enterprises implement project follow-up investment, project follow-up investment plan is increasingly similar and different projects of the same real estate enterprise adopt the same project follow-up investment plan. For example, project follow-up investment plan of Vanke, Dima and Jinghan Group is similar in follow-up investor selection, follow-up investment project selection and follow-up investment amount design and that of Country Garden, Meihao Property and BRC Development is similar in organizational form,

follow-up investment amount setting and profit distribution. Project follow-up investment plan of Vanke and Country Garden identifies follow-up investment project scope as sales project and other types of projects.

Second, project follow-up investment of real estate enterprise does not respect top management's will of follow-up investment. Most Chinese real estate enterprises implementing project follow-up investment force top management to invest in the designated projects and some real estate enterprises such as Vanke and Country Garden stipulate the lowest follow-up investment amount in specific project, which imposes certain economic pressure upon employee. To catch up vigorously, some real estate enterprises even design leverage and interest rate for follow-up investor and funding leverage of some followers reaches about 10 times and even 20 times.

3.3.3 Standardization Stage of Project Follow-up Investment (2018-Now)

3.3.3.1 Characteristic of Standardization Stage

Project follow-up investment of real estate enterprise in the initial standardization stage is characterized in standardization of operation, capital source and information disclosure. *Industry Information Disclosure Guide 3-Listed Companies Engage in Real Estate Business* released by Shenzhen Stock Exchange under the supervision of China Securities Regulatory Commission in the end of December, 2017 standardized operation, capital

source and information disclosure of project follow-up investment. That is, participant, capital and information disclosure were standardized when project follow-up investment plan was modified. Since then, project follow-up investment of Chinese real estate enterprise entered the initial standardization stage. As shown in Appendix A, Vanke Group modified project follow-up investment plan in 2018 by affirming not to provide follow-up investor with capital loan and guarantee, and disclosed follow-up investment information of some enterprises in 2018 annual report.

3.3.3.2 Problems Existing in the Standardization Stage

First, regulations can constrain a part of real estate enterprises only. *Industry Information Disclosure Guide 3-Listed Companies Engage in Real Estate Business* released by Shenzhen Stock Exchange was intended for real estate enterprises listed on Shenzhen Stock Exchange only.

Second, information disclosure of project follow-up investment becomes formalistic. As shown in Appendix A, real estate enterprises implementing project follow-up investment in 2018 still did not specify disclosure of follow-up investment information when measured against project follow-up investment plan of Meihao Property, Jinghan Group and Jiangsu Zhongnan Construction Group, and follow-up investment information disclosed in 2018 annual report of Vanke related to projects with top five incomes instead of income and capital source from employee follow-up investment.

3.4 Design Analysis of Follow-up Investment System of Real Estate Enterprise

In a sense, Vanke’s business partnership system symbolizes a new development stage of talent motivation of the real estate industry from the human resource age and the human capital age to the business partnership age (as shown in Fig. 3.3).

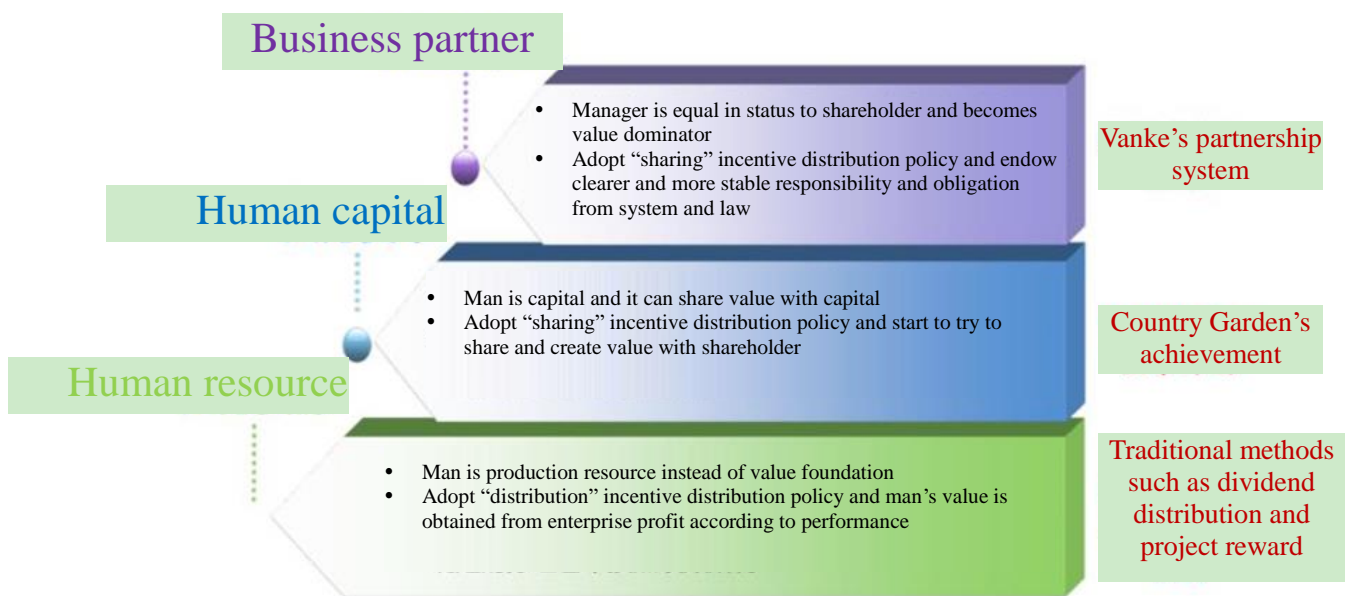


Fig. 3.3 Development stage of talent motivation of the real estate industry

The key of follow-up investment is to give follow-up investor a large space to make efforts and get return. 1 core, 3 stages and 9 implementation points of follow-up investment system for real estate project are unscrambled using “1-3-9 follow-up investment system”.

(1) 1 core refers to identifying “Investment Distribution Rule” with the aim of discussing guiding principles for setting follow-up investment system from purpose (as shown in Fig. 3.4).

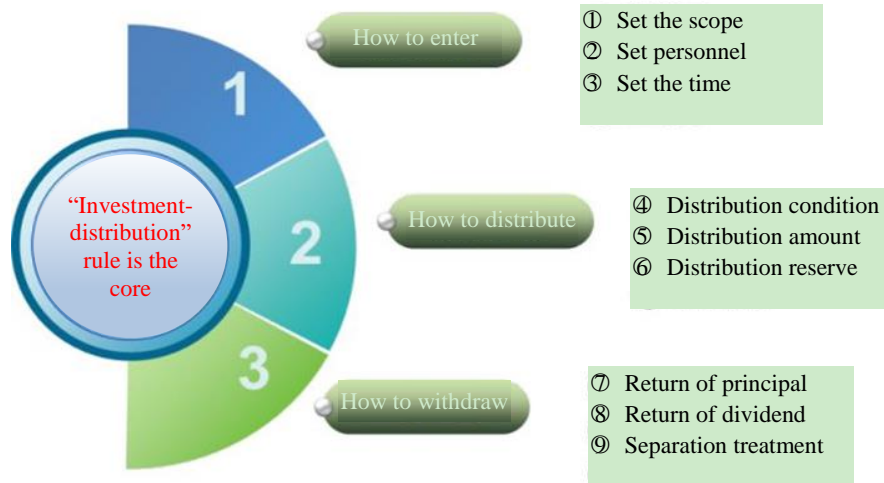


Fig. 3.4 Investment Distribution Rule

(2) 3 stages are divided according to operation chain, mainly focus on controlling concrete operation rules and include design of entry mechanism, design of profiting sharing mechanism and design of withdrawal mechanism.

(3) 9 implementation points are included in three stages and are top priority in design of follow-up investment system. Certainly, the entire process is designed under the guidance of core objectives. Different follow-up investment systems should be adopted for different purposes.

3.4.1 Investment Distribution Rule

Follow-up investment system has the advantage of better motivating employees, fully arousing core team’s passion, improving project quality and

functioning on financing. Incentive-based follow-up investment is different from joint adventure-based follow-up investment in design of follow-up investment scope and return and profit sharing mode.

Therefore, it is very important to stress and identify the ultimate purpose of follow-up investment: Any enterprise should consider why to implement follow-up investment. Follow-up investment can be divided into three types: Co-creation type follow-up investment, sharing type follow-up investment and joint adventure type follow-up investment ^① (as shown in Fig. 3.5).

Type	Real stock or not	Incentive mode	Employee			Company		Mode feature
			Whether to invest	Whether there is risk	Voting power	Equity dilution	Employee interest binding	
Co-creation type	Yes/no	Share/dividend distribution	No	Yes	No	Yes/no	High	High incentive attracts employee Suitable for small and medium-sized real estate enterprise or new businesses/areas
Sharing type	No	Dividend distribution	No	No	No	No	Low	No investment, not risk, high return Suitable for fast-growing enterprise
Joint adventure type	No	Dividend distribution	Yes	Yes	No	No	High	Profit sharing, risk pooling Suitable for mature real estate enterprise

Fig. 3.5 Purpose of follow-up investment

^① Source: *Top 100 real estate enterprises implement follow-up investment; how to do properly?*
SOHU.COM. https://www.sohu.com/a/190145335_120734

(1) Co-creation type follow-up investment is often used in newly established organization or small enterprise. Newly established organization lacks resource especially financial resource, so how to introduce an excellent core team is the primary task. They can try to attract and motivate professional manager through profit distribution and high return at low basic pay. Thus, professional manager needs no direct input in most cases, but they get low basic annual pay and anticipated income after achieving the anticipated goal.

(2) Sharing type follow-up investment has been widely applied and Rongxin has explored this mode a few years ago. For example, Country Garden started to pilot achievement sharing mode in some projects in 2018. Under this mode, employees needs no direct input, they could further share the excess part beyond the expected income based on basic pay. Sharing type mode is more conducive to employee and it highly motivates employee to improve operating efficiency of project and attract key talents.

(3) Joint adventure type follow-up investment. Follow-up investment mode gradually develops “from co-creation to sharing and joint adventure”. For example, Vanke’s business partnership system is developing towards joint adventure mode. Joint adventure mode is a relative balance point of enterprise’s and employee’s mutual benefit and manager becomes a partner through direct investment and shares project risks and value with enterprise. Like the principle of “entropy” in substance, when the gap of both parties’

interests is gradually eliminated and nonequilibrium state turns equilibrium state, both parties' "entropy" is maximized^①.

To sum up, three modes have their own characteristics and different application scopes. As a whole, joint adventures mode represents the future direction of follow-up investment relative to co-creation mode and sharing mode, but it does not mean that joint Vanke's adventure mode is suitable for all real estate enterprises and follow-up investment mode should be selected according to such factors as enterprise nature, development stage and employee resistance.

There is an indistinct boundary among three modes and some enterprises adopt follow-up investment system between the two. In addition, enterprise should treat follow-up investment in a perspective of dynamic change and while designing follow-up investment system, they should adjust measures to local conditions and make continuous improvements.

3.4.2 Follow-up Investment

The first question of follow-up investment system is to design boundary and rhythm of entry mechanism. For example, what projects can be invested? Who can invest? How to arrange follow-up investment? Specific to these problems, key points for setting entry mechanism are reduced to "three settings"-set the scope, set the personal and set the time (as shown in Fig. 3.6).

^① Source: *Full edition of interpretation of partnership system*. Baidu Library.
<https://wenku.baidu.com/view/6c9f2dc70640be1e650e52ea551810a6f424c832.html>

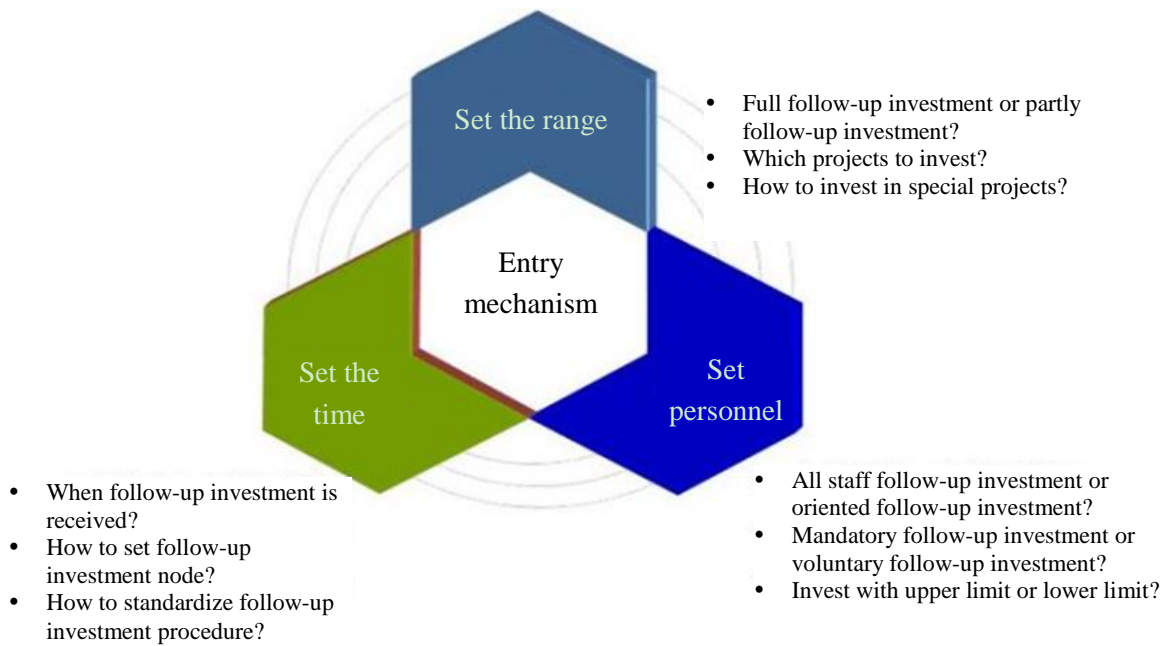


Fig. 3.6 Key points of entry mechanism

(1) Follow-up investment scope. Generally, project follow-up investment scope is set in two ways. First, all projects are included in the scope of follow-up investment^①. For example, all projects of such real estate enterprises as Vanke and BEIJING CAPITAL LAND must undergo follow-up investment. Second, some projects should undergo follow-up investment, which is also adopted by real estate enterprises such as Country Garden and Rongxin.

The aforesaid two modes have their advantages and disadvantages. If all projects are included in the scope of follow-up investment, “choosers” problem can be avoided and management team is forced to measure whether to acquire land more prudently. However, project difference increases and employee may resist due to less choices.

^① Source: *VankeVSCountry Garden, whose follow-up investment system represents the future?* 360doc.
http://www.360doc.com/content/19/0524/13/60766069_837904487.shtml

Considering purpose of follow-up investment, sharing mode chooses some projects for follow-up investment, but selection criterion should be set carefully. Joint adventure mode recommends including all projects in the scope of follow-up investment and puts constraints on employee to improve project operation level. Co-creation mode adopts one project one discussion and even one person one discussion.

Some special project should be excluded from the scope of follow-up investment and not all projects must undergo follow-up investment; otherwise, the final result may be poles apart from the purpose.

(2) Follow-up investor. Follow-up investor and follow-up investment amount should be defined: Who can engage in follow-up investment? is follow-up investment mandatory or voluntary? Whether to set the scope of follow-up investment? What are the maximum amount and the minimum amount of follow-up investment? ^①

First, all staff follow-up investment and partial follow-up investment. The core is to ensure the incentive effect on core employee and give consideration to all staff follow-up investment according to follow-up investment amount, priority and profit sharing mechanism ^②.

^① Source: *Secrets of employee follow-up investment of Hikvision (part two)* . 360doc.
http://www.360doc.com/content/20/0813/19/71134393_930175972.shtml

^② Source: *Overcome the difficulty in incentive of state-owned enterprise. Hikvision energetically implements core employee follow-up investment system.* YICAI.
<https://www.yicai.com/news/5194281.html>

Second, mandatory follow-up investment and voluntary follow-up investment. To intensify the binding effect of follow-up investment, mandatory follow-up investment is necessary: If the project team does not invest in own project, other employees will have no confidence^①. Binding management's benefit to project benefit and company benefit necessarily helps inspire follow-up investor's potential. It is just this invisible force that will play a decisive role in project operation and it has been verified in several follow-up investment projects of several real estate enterprises.

Based on experience of benchmarking real estate enterprise, top management is often required to invest and management and employee are free to invest. For example, department-level deputy manager or above of the headquarters of group, leading body of regional company or urban company, core project team and other key personnel must invest in project. Whether mandatory follow-up investment or voluntary follow-up investment is adopted is determined by benefit matching.

Maximum amount and minimum amount of follow-up investment. Based on controllable objective of follow-up investment, real estate enterprise should preset maximum amount and minimum amount. There are two options: One is personal constraint, namely setting maximum amount and minimum amount of follow-up investment for employees. The other is overall constraint,

^① Source: *Project follow-up investment management rules*. Baidu Library.
<https://wenku.baidu.com/view/d10bc384fe4ffe4733687e21af45b307e871f9ad.html>

namely setting an overall maximum amount and minimum amount for employees at a level. Certainly, the two can be used simultaneously or alternately and the key is to determine maximum amount and minimum amount. Fig. 3.7 shows some research results of follow-up investment of Seipp Research Institute, which is for reference only.

	Low value	Medium value	High value		Overall proportion
General manger	100,000 Yuan	200,000 Yuan	500,000 Yuan	⇒	5%~10%
Top management	50,000 Yuan	100,000 Yuan	200,000 Yuan	⇒	20%~30%
Manager	10,000 Yuan	20,000 Yuan	50,000 Yuan	⇒	20%~30%
Employee	0	1,000 Yuan	10,000 Yuan	⇒	30%~40%

Fig. 3.7 Some research findings of follow-up investment

In terms of personal constraint, minimum amount of follow-up investment at general manager level is often about 200,000 Yuan/project and that of some companies is at least 500,000 Yuan/ project. The median value of minimum amount at top management level is about 100,000 Yuan/project and that at manager level is about 20,000 Yuan/project. Minimum amount at grass-roots staff level is often not set, but it is often ten thousand Yuan or ten million Yuan.

In terms of overall constraint, overall proportion of employees at a level should be considered and a certain proportion should be reserved for different levels in the initial stage. For example, top management takes up 20-30% of

follow-up investment amount according to actual size and employee takes up 30-40%.

More factors should be considered when specific proportion is set. For example, how to set the proportion of staffs in the headquarters and staffs at the production line, how to set the proportion of staffs of the project and staffs of other projects and whether maximum and minimum amounts of special projects are adjusted. Actual amount and planned amount of follow-up investment often differ, so adjustment rules should be specified. If a company follows up investment in several projects, employee's follow-up investment ability should be considered. Generally, the power of absolution will be set, so employee can reject follow-up investment if the amount exceeds 40% of their annual pay of last year.

(3) Follow-up investment time. Determine time nodes, such as information release, employee subscription confirmation, payment, repayment and profit sharing planning and set relevant rules to standardize the entire follow-up investment process. The aforesaid time nodes are closely related to follow-up investment mode and project information. No matter what mode is adopted, security of cash flow should be mainly considered and time nodes should be planned when security of cash flow is ensured.

3.4.3 Return and Profit Sharing of Follow-up Investment

The direct purpose of employee follow-up investment is to make profits, so how profit is distributed is a key topic of follow-up investment system. Design of distribution rules relates to distribution amount, distribution condition and reservation. According to Seipp research, follow-up investment distribution is roughly divided into loose type, balanced type and strict type (Fig. 3.8).

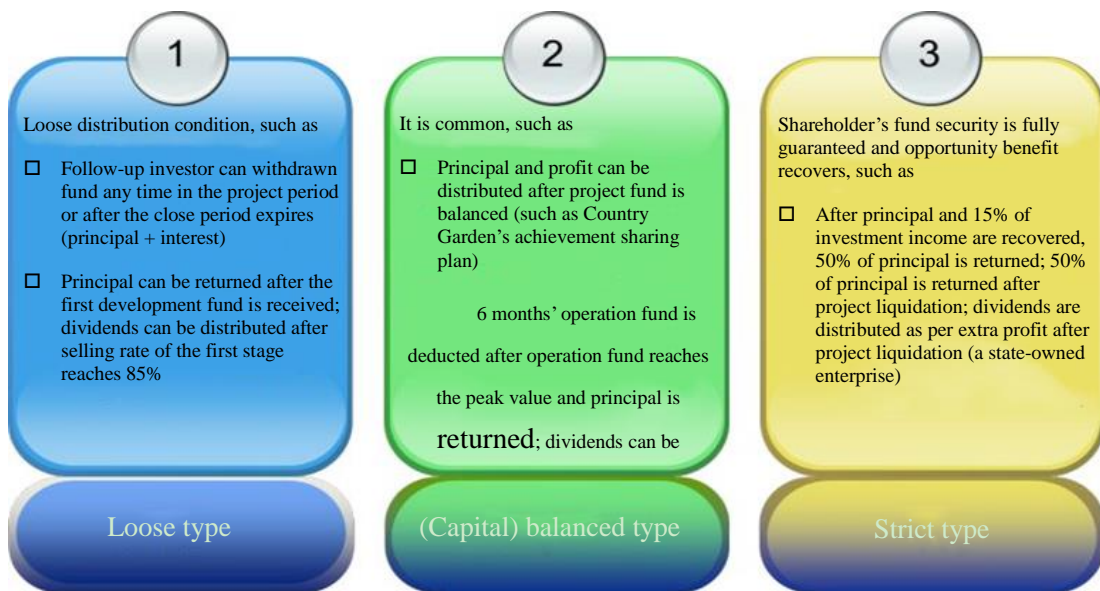


Fig. 3.8 Profit distribution type of follow-up investment

(1) Loose type distribution mode has a few or no restrictions to withdrawal. For example, principal can be returned any time during the project period or after the close period expires, principal can be returned after the first development cost is paid and profit can be distributed when selling rate of the initial period reaches 85%. Loose type follow-up investment rule is

in favor of employee and it is often applied to sharing type follow-up investment. Loose type distribution mode is a double-edged sword. Since it cannot effectively control how long employee's funds are retained in project, it may make cash flow instable and cannot have a "joint adventure" effect on binding employee benefit^①. However, it has the advantage of instant cash return and flexible withdrawal mechanism, which is more beneficial to early promotion of follow-up investment system. It can yet be regarded as a choice especially when enterprise faces the problems of weak brand endorsement, bleak project prospect or long operation cycle.

(2) Strict type distribution mode. The core is enterprise interest, giving top priority to fund security and dividend income and include employees in the posterior grade distribution scope. For example, an enterprise starts to return a part of principal to employee after enterprise recovers the principal and a certain amount of income, which ensures security of cash flow to the greatest extent, but arouses follow-up investor's resistance. The key of strict type distribution mode is to fully consider employee's acceptance level and find a balance point between enterprise interest and employee interest.

(3) Balanced type distribution mode is a neutral choice between loose type distribution mode and strict type distribution mode and the most common distribution mode of follow-up investment. For one thing, cash flow of project

^① Source: *Interpretation of design points of follow-up investment system for real estate project*. Zhihu. <https://zhuanlan.zhihu.com/p/30635906>

is stabilized, there is no potential menace to normal operation of project and safety factor improves greatly; for another thing, principal and dividend are returned for the first time after project fund is balanced, cash is recovered in a reasonable time and employee's enthusiasm for follow-up investment is aroused. A win-win mode is prone to promote and implement. The difficulty is complex rule and accurate estimation is very important. For example, a benchmarking real estate enterprise regards maximum management funds as the measurement standard for balancing project fund and principal can be returned when management funds reach the peak value and are retained for 6 months.

The above three modes can produce more operation modes and distribution rules for follow-up investment should be designed according to what benchmarking real estate enterprise does in order to avoid useless work. With reservation as an example, profit/excess profit can be shared only when some basic indexes are met. Total distribution amount is often limited to 10% of net profit and 20% of excess profit.

3.4.4 Withdrawal of Follow-up Investment

Withdrawal is the last link of follow-up investment system and it mainly includes return of principal, distribution of dividend and equity disposal after separation. It is a strong guarantee for enterprise benefit and employee benefit.

(1) Return of principal: Identify whether to ensure security of employee's principal or enterprise's principle, which shows the difference in distribution mode. Principal may be returned at a time or several times.

(2) Distribution of dividend: Dividend is often distributed by stages. Distribution of the first dividend and the last dividend are the key. Generally, dividend is first distributed when cash flow is safe and a certain amount is reserved for dividend distribution upon project liquidation.

(3) Equity disposal after separation: It is always a core concern of employee. Generally, two rights need to be disposed of, one is principle or equity and the other is income right. Different types of dividends are disposed of in different ways. In case of separation, these problems will arise. Thus, real estate enterprise should take these problems into account while designing follow-up investment system (as shown in Fig. 3.9).

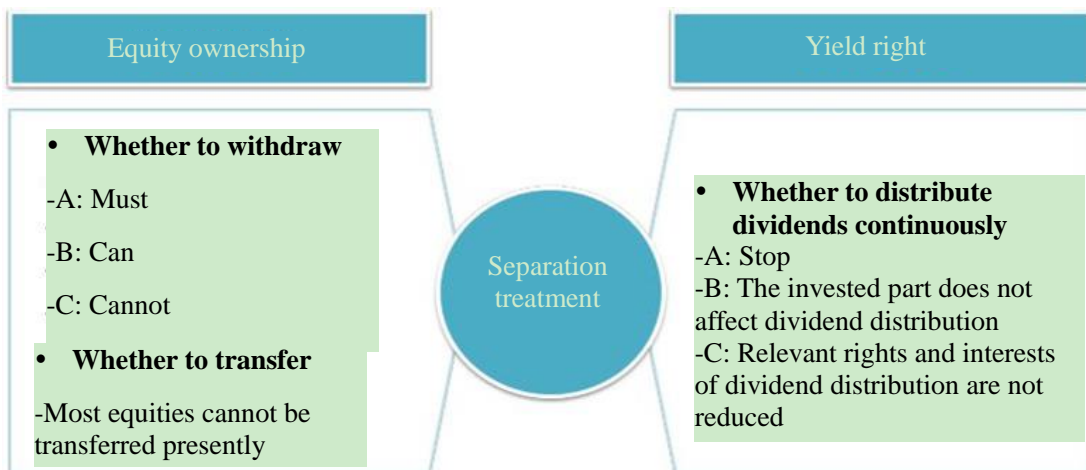


Fig. 3.9 Design of withdrawal rules for of follow-up investment

3.5 Challenge in Follow-up Investment Mode of Real Estate Enterprise

Follow-up investment system enables employee and enterprise to assume risk and share profit jointly and partly controls and reduces the risk of staff turnover to improve internal governance mechanism and salary system of investment organization and enhance their competitiveness. Project follow-up investment system has three obvious superiorities compared with conventional incentive mode: Interest-related transparent management partly reduces manager's black box operation and other ethical risks; bind project benefit and investment manager's benefit to share risk and improve safety and profitability of project; except administration expense, manager may input more energy to share investment income, which can be regarded as a win-win mode combining incentive and restriction^①.

In addition to high incentive and high restriction, project follow-up investment mode has high risk. In the financial industry, follow-up investment mode is always highly controversial due to "Rat Trading" and other potential capital operation risks of shareholder. Relatively, it is safer to use it in the real estate industry, but some individuals still may probably procure private

^① Source: *Research on project follow-up investment system of real estate enterprise and analysis of advantage and disadvantage*. Docin.com. <https://www.docin.com/p-2349586302.html>

interests against the rule. In particular, real estate follow-up investment system faces the following challenges^①:

3.5.1 Challenge in Slow Development of Real Estate Industry

With slow development of the real estate industry, the high profit age ends and outflow of talent becomes increasingly serious. Project follow-up investment system is introduced to solve outflow of talent, stimulate organizational vigor and improve operating efficiency through sharing risk and profit. However, project follow-up investment system cannot resist market tendency, especially low selling rate is not caused by internal efficiency of enterprise in third and fourth-tier cities but industry oversupply^②.

3.5.2 Challenge in Business Diversification

Single housing business cannot bring long-term and stable cash income. In the meantime, risk and instability increase and more and more real estate enterprises diversify business from residence to commercial, endowment and logistics real estates and even actively develop new businesses such as health and education.

Most real estate enterprises still pursue high turnover of residence, which reduces the threshold and risk of project follow-up investment. Fast flow of

^① Source: *Interpretation of follow-up investment mode of real estate enterprise*. 360doc.
http://www.360doc.cn/mip/743158059.html?ivk_sa=1024320u

^② Source: *Five challenges of follow-up investment in real estate project*. SOHU.COM.
https://www.sohu.com/a/29319763_209020

employee's own funds and considerable income are attractive enough. With emergence of integrated project (residence + commercial real estate) and increase the proportion of commercial real estate, funds of commercial real estate cannot flow fast due to a long investment cycle. The same is true of endowment and logistics real estates. Therefore, follow-up investment mode, partial follow-up investment or overall follow-up investment and settlement and withdrawal must be considered.

3.5.3 Challenge in Management Architecture and Trust Problem

(1) Challenge in enterprise culture and employee mentality. Enterprise culture is a core soft power and project follow-up investment is a material incentive mode. On account of project uncertainty and yield risk, enterprises with a weak cultural base should prevent change in employee mentality caused by material income from project follow-up investment^① and negative influence of too high or too low income on employee's working enthusiasm.

(2) Adaptability of management structure authorization system. Presently, most real estate enterprises adopt "group-region-project" three-level or two and a half-level management structure, but the authorization system of different enterprises is different. For instance, Vanke and Country Garden has given authorization to front-line team, so front-line team has decision-making power or a bigger speaking right of project decision. However,

^① Source: *Five challenges of follow-up investment in real estate project*. SOHU.COM.
https://www.sohu.com/a/29319763_209020

decision-making power of Gemdale Corporation and other state-owned enterprises is still owned by group. 70%-80% of value of real estate project is decided in the early stage, so project follow-up investment should consider front-line team and decision team to bind interests^①.

(3) Mutual trust between employee and boss. Financial system of most non-listed real estate enterprises, especially small and medium-sized real estate enterprises, is not transparent and many still adopt operation mode of family business, so mutual trust is lacked between employee and boss. In this case, whether project follow-up investment system has an incentive effect on “uniting people with money” is uncertain.

3.6 Summary

Project follow-up investment of real estate enterprise is essentially employee follow enterprise to invest in real estate development project. There are different types of follow-up investment. Employee can directly hold company shares or participate in project through team building. A standard mode is that real estate enterprise establishes a limited partnership indirectly so that enterprise and employee participate in project follow-up investment together. That is, real estate enterprise establishes a limited partnership and the partnership establishes a project company for project investment. A limited partnership can invest in only one development project and employee

^① Source: *Summary and interpretation of follow-up investment system*. Baidu Library. <https://wenku.baidu.com/view/8bc33e050229bd64783e0912a216147917117ee9.html>

participating in project follow-up investment and project company jointly invest in specific project. In limited partnership, general partner is wholly-owned investment management company or organization of real estate enterprise and assumes unlimited joint and several liability for partnership's debts. Employee participates in project investment as limited partner and assumes limited liability for debts according to investment amount.

The basic procedure of employee follow-up investment system is as follows: First, general partner and limited partner jointly establish a limited partnership with general partner as the top management and limited partner as general staff. Then, limited partnership and real estate enterprise jointly establish a joint venture responsible for development of real estate project. Limited partnership's investment accounts for 10-20% of total investment and it is often employee's follow-up investment. Real estate enterprise will force top management, project leader and project management team to invest with different amounts. Finally, after follow-up investment project is launched, real estate enterprise will specify time nodes of principal return and dividend distribution using different restrictions according to project progress and sales status, such as cash flow, net profit and sales area.

A scientific and suitable follow-up investment system is of great importance for real estate enterprise and a scientific scope should be set to adapt to different stages according to for status, personnel, follow-up

investment carrier, amount, fund, supervision and profit distribution of follow-up investment.

CHAPTER 4. Analysis of Follow-up Investor, Amount and Ratio of Real Estate Enterprise

Personnel, amount and proportion of follow-up investment were analyzed and studied in this chapter based on yearbook and survey data of the real estate industry.

4.1 Basic Introduction to Follow-up Investor of Real Estate Enterprise

Follow-up investor refers to objects at different levels in an organization that participate in follow-up investment. According to intention, follow-up investment includes mandatory follow-up investment and voluntary follow-up investment. The former means that follow-up investment object has no option of whether to invest and follow-up investment project as stipulated; while voluntary follow-up investment is on the contrary. Mandatory follow-up investment object is often middle and top management and voluntary follow-up investment has a wider scope. Mandatory follow-up investment system is mainly adopted in the upward cycle of the real estate market; while voluntary follow-up investment system can better protect follow-up investor's interest in the downward cycle of the real estate market, so it should be the top choice.

The main purpose of follow-up investment system is to improve project quality and accuracy of product development decision. In the follow-up investment system, expected earnings, capital flow-back, product orientation and risk control of project will be measured more strictly. If front-line company management and project manager carry out mandatory follow-up investment, project team will be more cautious about land acquisition to effectively avoid the risk of “improper land acquisition”

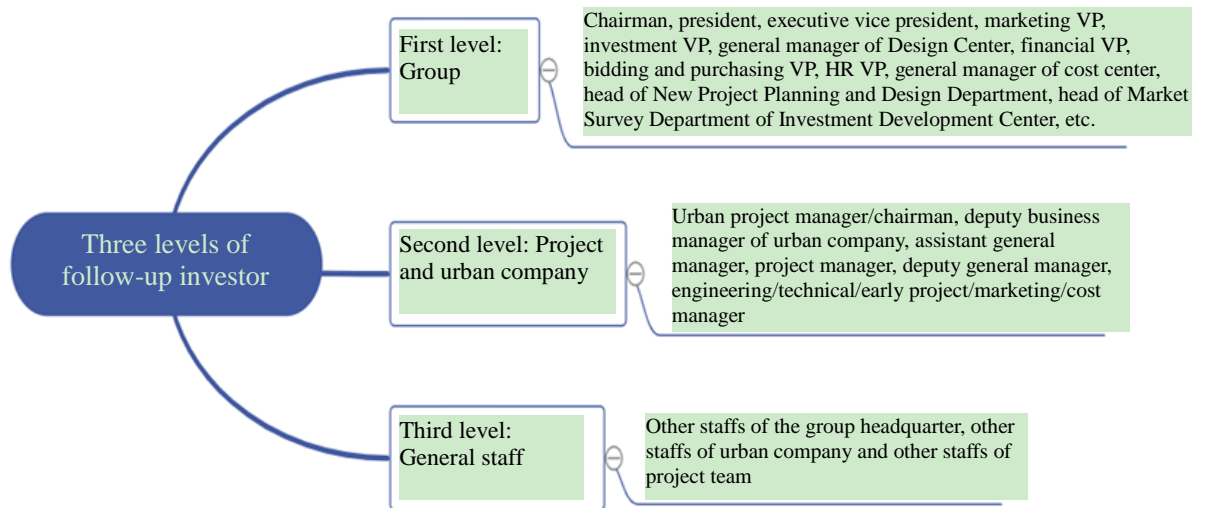


Fig. 4.1 Hierarchical division of follow-up investor

Relative to other incentive methods such as equity incentive, project follow-up investment system has a wider object scope and can be divided into three levels. The first level is group level, including chairman, president, executive vice president, marketing VP, investment VP, general manager of Design Center, finance VP, bidding and purchasing VP, HR VP, general manager of Cost Center, head of New Project Planning and Design Department and head of Market Survey Department of Investment

Development Center; the second level is project and urban company, including general manager/president of urban project, deputy business manager of urban company, assistant general manager, project general manager, deputy general manager, engineering, technical, preliminary work, marketing and cost managers; the third level is general staffs at the production line, including other staffs of the headquarters of group, other staffs of urban company and other staffs of project team (as shown in Fig. 4.1). According to market condition, salary level and risk resistance of follow-up investor at three levels are different. In the upward cycle of the real estate market, real estate enterprise often chooses mandatory follow-up investment at three levels. In the downward cycle, they often set mandatory follow-up investment at the first and second levels and voluntary mandatory follow-up investment at the third level.

Project follow-up investment features risk pooling and profit sharing. To give the role of follow-up investment system into full play and closely tie middle and top management's interest to company interest, some employees will be included in the scope of follow-up investor in order to avoid failure of follow-up investment system and damage to company interest when project has a poor prospect and project leader rejects follow-up investment. Even though project follow-up investment is a welfare incentive method, if mandatory follow-up investment is adopted for all staffs, it undoubtedly will increase financial stress on grass-roots staffs and their losses on follow-up

investment in the downward cycle of the real estate market, which goes against the original intention of follow-up investment system. What is more, for enterprises whose projects have clear division of work, if person responsible for project A is forced to invest in uncontrollable project B, it is inhumane and helpless for exploiting the role of follow-up investment system and outflow of talent will be caused. Thus, project follow-up investor of real estate enterprise includes mandatory follow-up investor and voluntary follow-up investor.

4.2 Research on Scope of Mandatory Follow-up Investor of Real Estate Enterprise

4.2.1 Status Survey of Scope of Mandatory Follow-up Investor

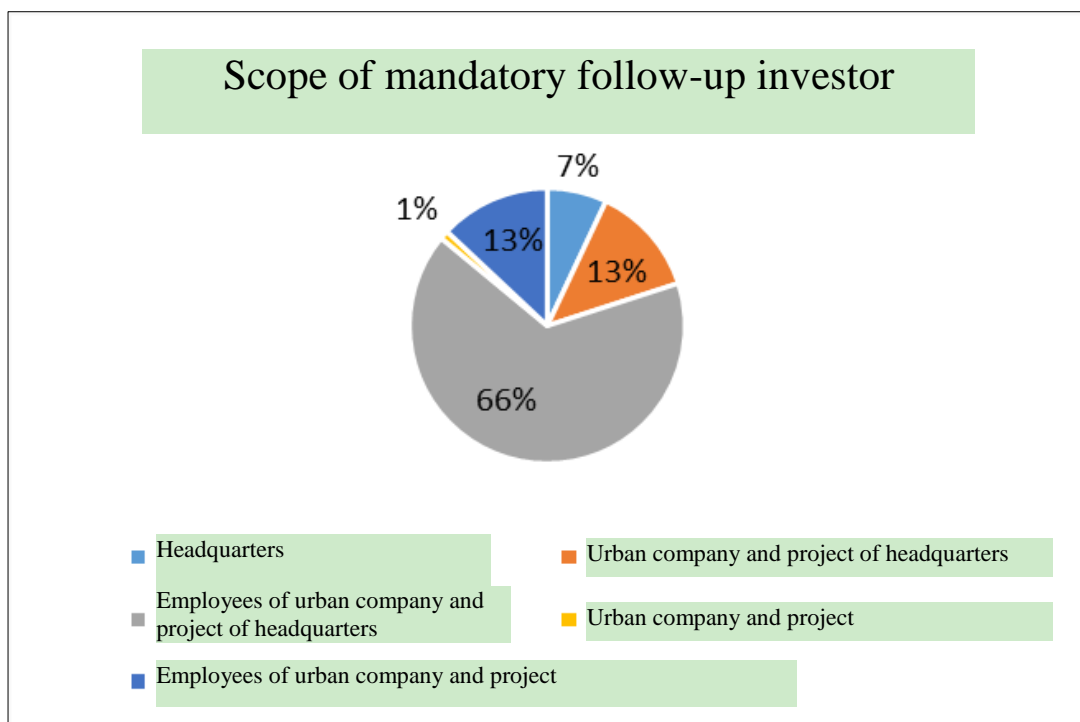


Fig. 4.2 Scope of mandatory follow-up investor

Questionnaire survey on 101 companies showed follow-up investors at the first level only were from 7 companies, accounting for 6.9%, those at the second level only were from 13 companies, accounting for 12.8%, those at the first and second levels were from 65 companies, accounting for 64.3%, those at the second and third levels were from 1 company, accounting for 0.9% and those at three levels were from 13 companies, accounting for 12.8%. Obviously, selection of follow-up investor focuses on including top management of the headquarters, urban company and project in the scope of follow-up investor, but general staffs can choose whether to invest.

Investigation shows that decision-making power of projects of some small companies is owned by top management of the headquarters and top management of project and urban company is responsible for decision only, so mandatory follow-up investor of some real estate enterprises includes top management of group only. According to Vanke's follow-up investment system, for all new projects than reconstruction of old city and some special projects, front-line company management and project manager are required to follow up company investment at the minimum investment amount. The initial amount should be limited to 5% of maximum project funds and investment scale can be enlarged through financing leverage^①. Project income

^① Source: *Vanke requires management to "invest" in new projects*. China News.
<https://www.chinanews.com/house/2014/03-29/6007657.shtml>

is instable in the downward cycle of the real estate industry, so mandatory follow-up investment may cause loss to Vanke's follow-up investor.

4.2.2 Analysis and Summary of Scope Setting of Mandatory Follow-up Investor

Analysis of survey data showed that 93 out of 101 enterprises included urban company and project personnel in the scope of mandatory follow-up investor, 85 included top management of the headquarters in the scope of mandatory follow-up investor and only 14 included general staffs at the production line in the scope of mandatory follow-up investor.

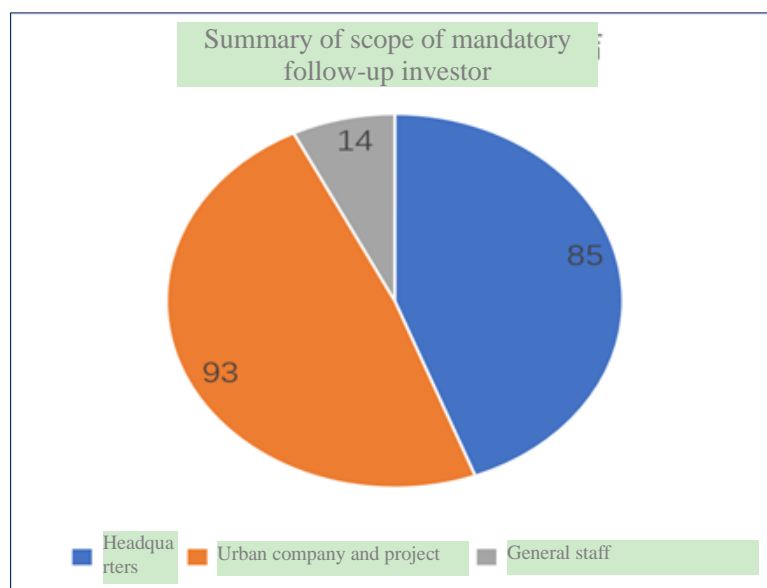


Fig. 4.3 Summary of scope of mandatory follow-up investor

General staffs are included in the scope of voluntary follow-up investor in consideration of their financial capacity and speaking right in work. Whereas general staffs and first-line managers do not take the dominant

position in business activities, but their enthusiasm for work and loyalty affect company management, benefits should be provided to general staffs and voluntary follow-up investment policy should be adopted in order that they can choose to invest in profitable project and to better protect employee's rights and interests and maintain morale in the downward cycle of the real estate market.

Decision of urban company and project leader directly affects project indexes. Including project leader in the scope of mandatory follow-up investor and binding their interest with project interest helps reduce unnecessary expenses, lower the cost and raise income in the project cycle. In the initial stage, project leader is more cautious about land selection and shows greater interest in land with development potential. In the construction period, project leader will strictly control such expenses as marketing expense and administrative expense, shorten project cycle as far as possible and accelerate withdrawal of follow-up investment. In a word, including project leader in the scope of mandatory follow-up investor is conducive to exploiting the advantages of follow-up investment system to the full, shortening product cycle, accelerating withdrawal of fund and raising profit rate. Meanwhile, it can reduce unnecessary expenses, lower the cost and relieve financial stress in the downward cycle of the real estate market.

The main purpose of including headquarters' top management in the scope of mandatory follow-up investor is to avoid internal benefit transfer.

The headquarters control all company resources, some companies are affected by interpersonal relationship and other external factors and company resources are inclined to some urban companies or project companies, so including headquarters' top management in the scope of mandatory follow-up investor can solve this problem. When project income is linked to personal interest, headquarters' responsible person who masters various resources will seek and help projects with great potential and perspect more actively, which raises working enthusiasm of person responsible for urban and project companies and form a virtuous circle to promote company development. Meanwhile, it realizes optimal allocation of resources in different stages of the real estate market and improves project profitability and risk resistance of real estate enterprise.

4.2.3 Example of Scope Setting of Mandatory Follow-up Investor

Vanke identifies all staffs as follow-up investor and urban companies specify the scope of mandatory follow-up investment and voluntary follow-up investment, so the scope of mandatory follow-up investment and voluntary follow-up investment of different companies is different, but management and head of core functional departments such as marketing and investment as well as project leader of project company often conduct mandatory follow-up investment.

Country Garden's follow-up investment is mainly intended for management. Mandatory follow-up investor includes top management, core management and personnel of future leadership plan and Nirvana plan and regional mandatory follow-up investor includes regional president, person responsible for regional investment, marketing and finance, project leader and project management team. Other managerial staffs can choose follow-up investment voluntarily.

In fact, besides Country Garden, other enterprises like Gemdale Corporation also identify only management as follow-up investor only, mainly because they are reluctant to impose risk upon general staffs^①.

Key personnel directly related to project operation result should be included in the scope of mandatory follow-up investor and project investment and marketing personnel should be mainly considered. For instance, Country Garden requires project leader and project management team to conduct mandatory follow-up investment.

Generally speaking, all staff follow-up investment and management follow-up investment are selected according to purpose of follow-up investment in the upward cycle of the real estate market. If the purpose is to share profit with more staffs, all staff follow-up investment shall be adopted. If the purpose is to shoulder the responsibility for enterprise responsibility

^① Source: *Top-secret analysis report on follow-up investment of Vanke & Country Garden*. SOHU.COM. https://www.sohu.com/a/226029818_608107

with staffs and upgrade management and professional level, management follow-up investment should be adopted. In the downward cycle of the real estate market, all staff follow-up investment is unreasonable. According to analysis of follow-up investment scope, management follow-up investment is necessary and general staffs with poor risk resistance should choose voluntary follow-up investment.

4.3 Research on Follow-up Investment Amount and Ratio of Real Estate Enterprise

4.3.1 Follow-up Investment Amount Status Research

According to questionnaire survey result, 41 out of 101 companies calculated follow-up investment amount based on maximum fund, accounting for about 40% and 34 calculated follow-up investment amount as per 8%-10% of total investment, accounting for about 33%.

Table 4.1 Project follow-up investment amount and proportional range of typical enterprise

Enterprise	Calculation basis	Proportional range
Vanke	Maximum project fund	<9%
Modern Land	Maximum project fund	<5%
Country Garden	Project equity	<15%
Yuxiu	Project equity	<10%
Gemdale Corporation	Project equity	<10%

Survey shows that project follow-up investment amount (including leverage limit) is often limited to 10% of maximum project fund, but most real estate enterprises that come top in the above figure and succeed calculated follow-up investment amount based on project equity, accounting for 5%-15%. If follow-up investment amount (including leverage limit) of most projects is limited to 10% of maximum project fund and Project equity of follow-up investment amount (including leverage limit) is limited to 20% of company shares (the above two conditions are met simultaneously), the lowest subscription quota is 50,000 Yuan (the follow-up investment commission can make appropriate adjustment according to product situation and difference in the upward and downward cycles of the real estate market).

4.3.2 Determination of Follow-up Investment Ratio and Adjustment

Generally, actual maximum project fund is different from maximum fund used to develop follow-up investment plan and the ratio of follow-up investment fund (including leverage) in project company's equities is determined according to the ratio of actual investment in actual maximum project fund. If maximum project fund is known, it is required to verify actual equity contribution amount of project and adjust the equity ratio of follow-up investment. If actual maximum project fund is higher than the anticipated value, it is required to reduce the equity ratio of follow-up investment accordingly. If actual maximum project fund is lower than the anticipated

value and follow-up investment limit is not reached, equity income right can be calculated according to employee's actual follow-up investment amount when maximum project fund declines and total follow-up investment amount is lower than follow-up investment limit. If total follow-up investment amount is higher than follow-up investment limit, it is required to adjust contribution amount according to equity ratio and return the exceeding part without interest to follow-up investor upon first fund allocation. In the downward cycle of the real estate market, equity ratio of follow-up investment can float on the basis of calculating follow-up investment amount in order to better protect follow-up investor's rights and interests.

4.3.3 Analysis and Example of Overall Follow-up Investment Amount Setting

Follow-up investment amount can be calculated according to maximum project fund or project equity. Vanke's follow-up investment amount is calculated according to maximum fund of follow-up investment project and maximum follow-up investment amount is set as 10% of estimated maximum project fund. Country Garden's follow-up investment amount is calculated according to project equity and maximum follow-up investment amount is set as 15% of project company's equity. In the downward cycle of the real estate market, maximum follow-up investment amount should fall sharply to reduce the risk. If follow-up investment amount is calculated as per maximum fund,

it is required to identify that follow-up investment amount cannot exceed a certain proportion of registered capital; otherwise, project's decision-making power may be affected. For example, Vanke limits total follow-up investment amount to 20% of its equities^①.

If follow-up investment amount is calculated as per registered capital, it is required to consider simultaneous capital injection and stock dilution. For example, Country Garden stipulates that project company's subsequent fund should be financed or self-raised by business partner. If there is any difficulty, they can inject subsequent fund through stock dilution.

4.3.4 Analysis and Example of Individual Follow-up Investment Amount Setting

Except overall follow-up investment amount, personal amount should be considered in design of follow-up investment system. Personal amount should be considered mainly from financial capacity. Considering high salary and strong risk resistance, top management's follow-up investment ratio is high and company may set the minimum follow-up investment amount. Considering low salary and weak risk resistance of general staffs, most companies do not set the minimum amount. In the downward cycle of the real estate market, the minimum amount of management follow-up investment

^① Source: Li Ruihong. *Analysis report on follow-up investment of Vanke & Country Garden*. http://blog.sina.com.cn/s/blog_844b70dc0102xmqo.html

should decrease and the minimum amount of employee follow-up investment should not be set to reduce the risk of loss.

According to survey data analysis, follow-up investment amount and follow-up investment object follow the principle of different levels and different ratios and are certainly related to company development scale and stage. On the whole, the scope of follow-up investment amount at different levels is shown above. The higher level is, the larger follow-up investment amount is and the lower ratio is. Level is positively correlated to income level. Low-income employee has a low follow-up investment amount and most follows up investment voluntarily, so they will not suffer from heavy stress and have a better understanding of project and the possibility that they make profit through concerted effort increases greatly. Furthermore, employee's follow-up investment covers the highest proportion in total follow-up investment amount of real estate enterprise. Thus, they can enlarge the scope of employee follow-up investment and reduce employee follow-up investment amount to stabilize total follow-up investment amount in the downward cycle of the real estate market.

4.4 Case of Follow-up Investor, Amount and Ratio Setting of Real Estate Enterprise

4.4.1 Vanke

In Vanke's project follow-up investment system, upper and lower limits of follow-up investment are set according to partner level. For example, upper limit of follow-up investment of regional general manager is 5 million Yuan and lower limit is 500,000 Yuan. Partner participates in the projects under their charge through capital contribution and becomes the "boss" of their projects, so they will be more responsible for their projects.

Partner of Vanke regional company is mandatory follow-up investor and company staffs or colleagues who do not participate in the project in the region are voluntary follow-up investor. Equity scope and shareholding ratio are as follows:

The total investment of a project of Vanke is 1 billion Yuan and the project is run using corporate system. The project has two shareholders, in which Vanke holds 51% of shares and A company (external partner of Vanke) holds 49% of shares. Vanke follows up investment in branch with 13% of shares valued 130 million Yuan. Investment ratio of Shenzhen Yingda Investment Fund Management Co., Ltd. (Vanke's partner shareholding platform) is 8% (namely 80 million Yuan) and that of project partner is 5%

(namely 50 million Yuan), which is equal to total amount of project follow-up investment of internal employees relating to the project.

Level	Category	Specific personnel	Nature	Lower limit	Upper limit	Total amount	Ratio
A	Regional general manager	XXX	Mandatory follow-up investment	500,000	5,000,000	17,500,000	35%
	Chief partner	Management, project leader, marketing director, etc.	Mandatory follow-up investment	200,000	700,000		
	Senior partner	Remaining M sequence	Mandatory follow-up investment	50,000	450,000		
	Project partner	Related project personnel	Mandatory follow-up investment	20,000	100,000		
B	Company staff	Other company staffs	Voluntary follow-up investment	10,000	75,000	15,000,000	30%
C	Regional partner	Regional mandatory follow-up investor and regional partner	Mandatory follow-up investment	According to regional rule		2,500,000	5%
	Other regional colleagues	Other regional colleagues	Voluntary follow-up investment	10,000	100,000	5,000,000	10%
D	Staffs of other units of the group	According to follow-up investment rule	Voluntary follow-up investment	10,000	100,000	10,000,000	20%

Fig. 4.4 Regulations on share scope and shareholding ratio of Vanke

4.4.2 Country Garden

Restrictions on total follow-up investment of Country Garden: Regional president and project manager just need to invest in project within their jurisdiction with investment amount limited to 10% of total investment of project. Group staff can invest in all projects with investment amount limited to 5% of total investment of project. Specific to the downward cycle of the real estate industry, Country Garden's follow-up investment amount is set

reasonably. Lower limit of mandatory follow-up investment and upper limit of voluntary follow-up investment are set according to importance of project company operation.

Employee type	Position	Follow-up investment type	Follow-up investment amount
Employee of group company	President and joint president of the group make contributions	Mandatory follow-up investment	No less than 15 million Yuan
	Group director	Mandatory follow-up investment	No less than 10 million Yuan
	Group VP	Mandatory follow-up investment	No less than 5 million Yuan
	President assistant of group and person in charge of functional center	Mandatory follow-up investment	No less than 3 million Yuan
	Deputy general manager of functional center	Mandatory follow-up investment	No less than 1 million Yuan
	Department general manager of group	Mandatory follow-up investment	No less than 0.5 million Yuan
	Department deputy general manager of group, member of “Nirvana Plan”	Voluntary follow-up investment	No more than 0.5 million Yuan
	Member of “future leadership plan” and graduates of project general manager training class	Voluntary follow-up investment	No more than 1 million Yuan
	Other employees	Voluntary follow-up investment	No more than 0.2 million Yuan
Regional company staffs	Regional president	Mandatory follow-up investment	No less than 0.8 million Yuan
	Regional marketing director, regional investment director	Mandatory follow-up investment	No less than 0.2 million Yuan
	Regional financial director	Mandatory follow-up investment	No less than 50,000 Yuan
	Project general manager	Mandatory follow-up investment	No less than 0.5 million Yuan

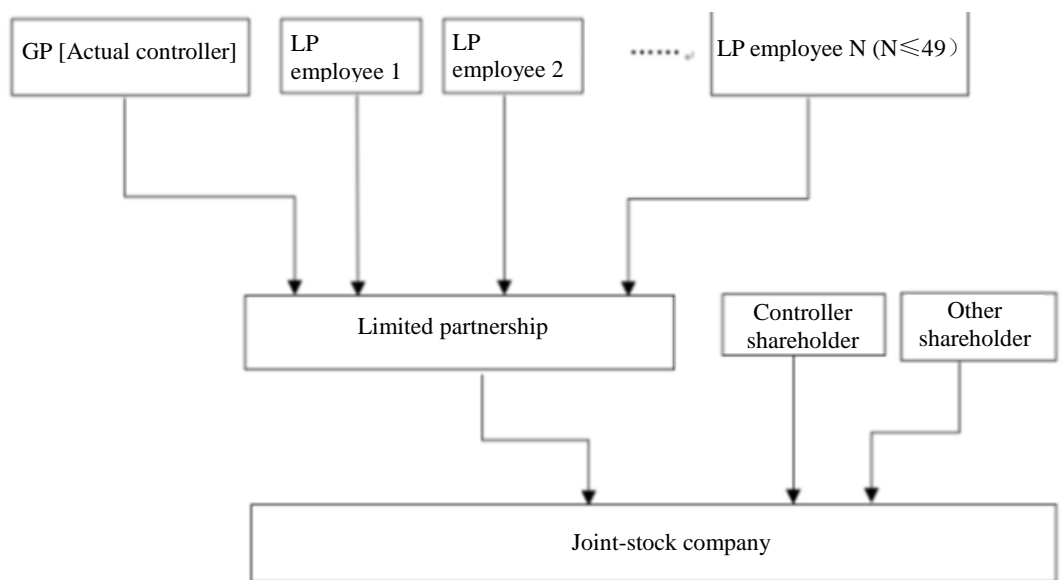
Fig. 4.5 Employee follow-up investment plan of Country Garden

4.5 Design of Business Partnership System Shareholding Platform

4.5.1 Basic Scheme of Business Partnership System Shareholding Platform Architecture

Generally, a typical way of partnership system and equity incentive is to set shareholding platform through limited partnership. The basic framework is: Actual controller, as GP (in practice, actual controller establishes a one-person limited liability company or majority shareholding limited liability company to avoid unlimited joint and several liability) and equity incentive object establish a limited partnership jointly^①. There are three equity schemes:

Scheme I: Establish platform architecture with actual controller as general partner and management team and key technical staff as limited partner, as shown in Fig. 4.6.



^① Source: *Design of operation mode and architecture of business partnership system*. SOHU.COM. https://www.sohu.com/a/379749955_120066453

Fig. 4.6 Platform architecture of plan I

Scheme II: Establish majority shareholding limited liability as general partner and management team and key technical staff as limited partner, as shown in Fig. 4.7.

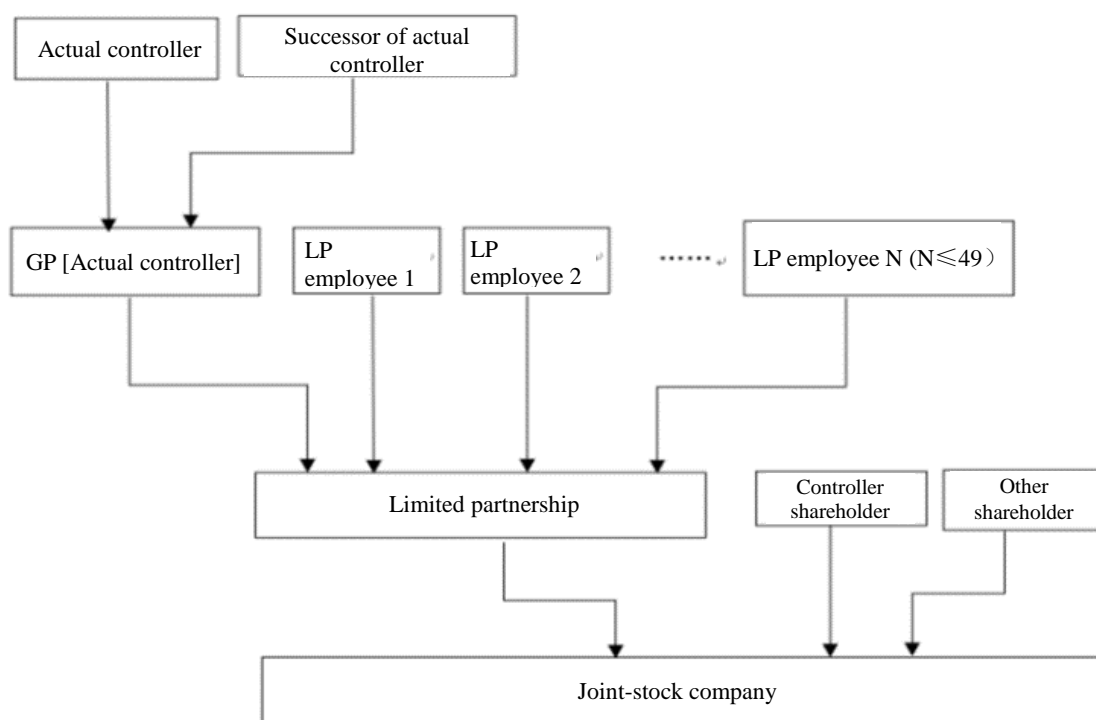


Fig. 4.7 Platform architecture of plan II

Top-level design of the above two equity structures is a typical way of company planning to be listed and venture company to build partnership and implement equity incentive.

Top-level design of partnership architecture should consider the number of financial investors or strategic investors whom company will introduce and number of people of partnership shareholding platform. Number of shareholders of employee shareholding platform should be calculated together with other shareholders and should not exceed 200.

Scheme III: Bottom-level design of project company's business partnership or project partnership, as shown in Fig. 4.8.

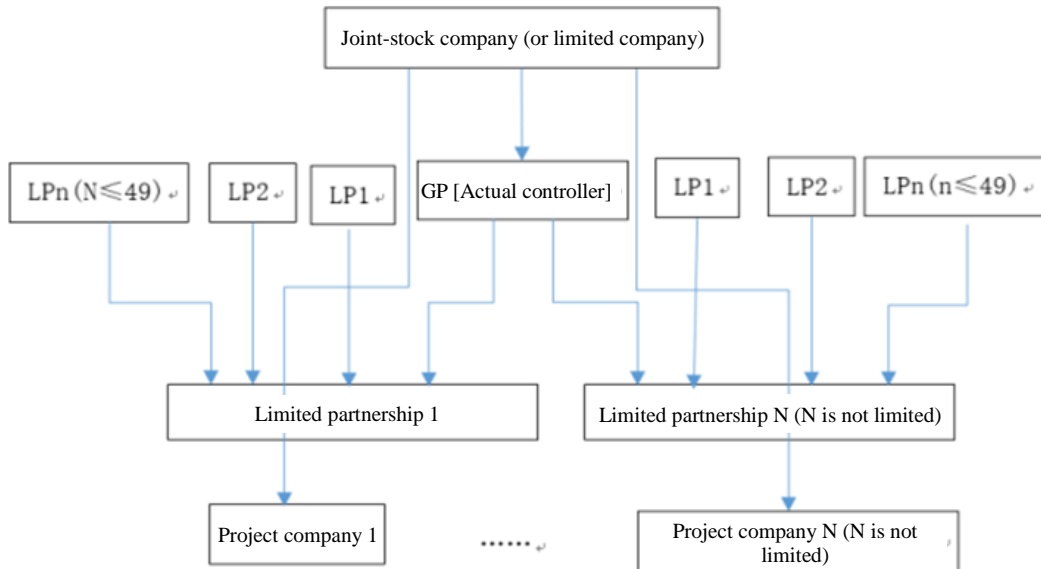


Fig. 4.8 Platform architecture of plan III

4.5.2 Example and Analysis of Business Partnership System Shareholding Platform Architecture

4.5.2.1 e.g.: Vanke Establishes a Partnership

1. According to follow-up investment rule, follow-up investment partners invest in the project. Vanke's General manager A of urban company responsible for the project (GP) invests 500,000 Yuan, vice president B (LP) invests 700,000 Yuan and employee representative C (LP) invests 50,000 Yuan to establish "limited partnership M" and sign *Share-holding Entrustment Agreement* with other employees (a total of 44.25 million Yuan) participating

in project follow-up investment. Other employees entrust the partnership with investment valued 50 million Yuan^①.

2. Shenzhen Yingda Investment Fund Management Co., Ltd. (GP) invests 80 million Yuan and establishes “limited partnership N” together with “limited partnership M” (LP). Limited partnership N holds 13% of project shares.

Based on this, shares of the project are held by “limited partnership N”, local urban company (regional company) and external cooperative corporation A with a shareholding ratio of 13%, 38% and 49% respectively. The equity structure is shown below:

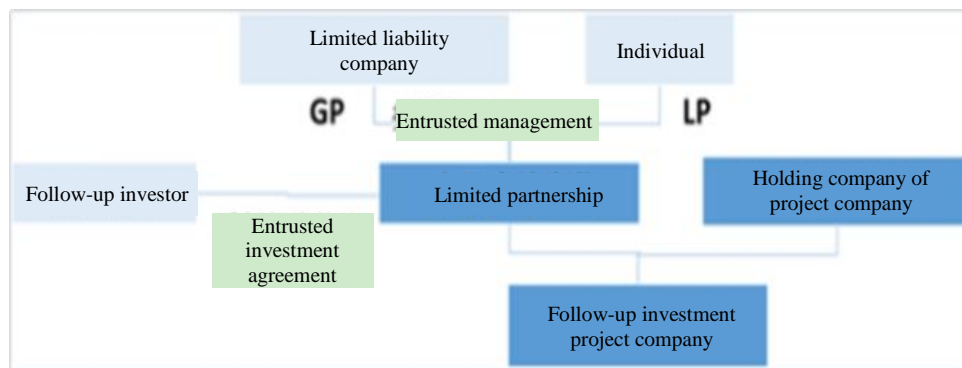


Fig. 4.9 Business partnership shareholding platform of Vanke

4.5.2.2 e.g.: Country Garden Establishes a Partnership

Country Garden establishes an independent project company for every project and project follow-up investor participates in follow-up investment through two employee

^① Source: *Vanke's business partner*. Baidu Library.
<https://wenku.baidu.com/view/5de3cd5b28f90242a8956bec0975f46526d3a735.html>

follow-up investment shareholding platforms for ease of management of follow-up investor's shares, as shown below.

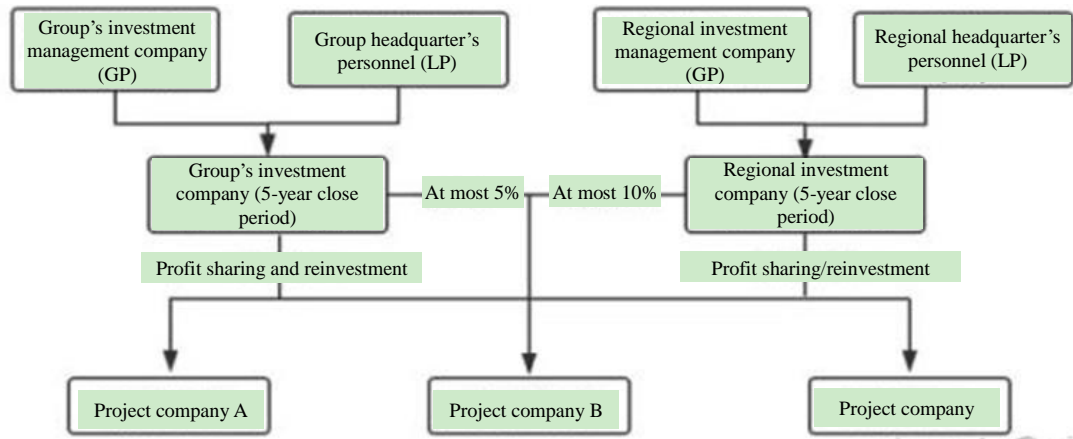


Fig. 4.10 Business partnership shareholding platform of Country Garden

Partnership is a limited partnership incentive platform with management as the incentive object that executive business partner in general partner engages in management and limited partner does not engage in management so that actual controller engages in management as executive business partner. As a matter of fact, it is a partnership mode that original shareholder holds shares as decision maker and management holds shares as business partner and decision can be made quickly without affecting original shareholder's actual control.

4.6 Summary

In this chapter, scope of mandatory follow-up investor, scope of follow-up investor, follow-up investment amount and ratio and shareholding platform setting are mainly analyzed and follow-up investment system is

resolved with Vanke and Country Garden as an example. The following basic conclusions are drawn:

1. Project follow-up investment should fully consider employee's financial capacity and evaluate their income level.

2. Mandatory follow-up investor should be selected mainly from senior management of the headquarters and urban and project companies. Mid-level staff and grass-roots staff should not be included in the scope of mandatory follow-up investor.

3. Follow-up investment amount and ratio should be determined according to project equity and follow-up investment ratio should be set as 5%, 10% and 15% according to project size.

4. Essential standards such as follow-up investment amount and ratio should be set scientifically according to real estate development status. Especially in the downward cycle of the real estate industry, follow-up investment income decreases with decrease in net profit rate, increase in land-cargo ratio and increase in cash flow-back difficulty. Real estate enterprise should consider effectiveness and yield of follow-up investment system.

CHAPTER 5. Research on Profit Sharing and Return Mechanism for Real Estate Follow-up Investment

In this Chapter, return and profit sharing mechanisms for follow-up investment are analyzed and designed based on yearbook and survey data of the real estate industry.

5.1 Analysis and Design of Return Mechanism

Time point and amount of return of principle in the return mechanism will affect follow-up investor's enthusiasm. The longer return time is, the lower return amount is and the more worries and doubts follow-up investor has about follow-up investment project. Besides, change of project income arising from difference in the upward and downward cycles of the real estate market enables real estate enterprise to design a return mechanism more suitable for market conditions.

The return mechanism mainly includes two aspects: Return frequency and amount and return condition. In Chinese, these two aspects will be analyzed and a reasonable and feasible return mechanism will be designed combined with return mechanism of counterparts and difference in the upward and downward cycles of the real estate market.

5.1.1 Analysis of Return Frequency and Amount

As to return frequency, questionnaire survey showed 21, 19 and 29 out of 88 companies returned the principal once, twice or three times, more companies returned the principal three times and only 19 companies returned the principal more than three times.

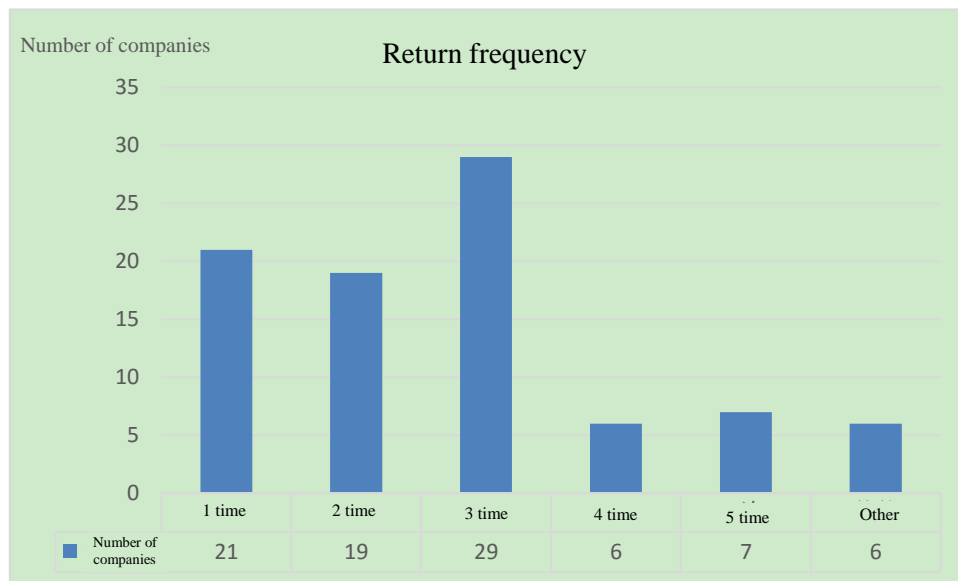


Fig. 5.1 Return frequency

Principal is returned several times to raise usage efficiency of follow-up investment so that follow-up investor can invest in more projects. Companies with a lot of projects and large size return the principal several times to achieve a good effect of follow-up investment system, which not only helps follow-up investor with cash flow-back and company to implement more follow-up investment plans, but also accelerates capital turnover in the

downward cycle of the real estate market^①. Moreover, a few companies return the principal more than three times because the return period is too long or principal is returned too fast for the first time and consequently the implementation effect of project follow-up investment is not achieved.

As to return amount, project company try to return 50% of principal for the first time based on safe cash flow, a total of 75% and 100% for the second time and for the third time. Only 1/3 of surveyed real estate enterprises implementing follow-up investment return above 50% of the principal for the first time and project company returns a large amount of principal for the first time to relieve follow-up investor's worries and doubts, raise their enthusiasm and reduce the influence on grass-roots staff's life^②. In the downward cycle of the real estate market, the amount of principal returned (once or twice) should be as large as possible to reduce employee's potential loss.

^① Source: *Chinese real estate industry has entered the downward cycle*. SOHU.COM.
https://www.sohu.com/a/243223780_99917400

^② Source: *Project follow-up investment case analysis (Vanke and Gemdale Corporation, etc.)*. Baidu Library. <https://wenku.baidu.com/view/e4fd90d1fbd6195f312b3169a45177232f60e488.html>

5.1.2 Analysis of Return Condition



Fig. 5.2 Return condition

As to return condition, project company, while setting the return time, requires to return the principal for the first time within 30 days after operational cash flow of follow-up investment recovers on the condition that the amount of funds deposited covers operating expense of the following 6 months. However, due to uncertainty of business activities, there is still a risk in withdrawal of fund and ultimate project profit, one-time return of principal puts heavy pressure on project cash flow and there is a big financial risk. Therefore, project company returns the principal three times under different conditions and returns the principal for the second time and for the third time within 30 days after shareholder's fund is withdrawn and own funds are balanced. Three return conditions reflect actual progress of follow-up investment project from recovery of cash flow and withdrawal of fund to

balance of own funds and it is reasonable to return the principal based on this. Besides, difference in the upward and downward cycles of the real estate market also has certain influence on return condition setting.

According to questionnaire survey, “recovery of cash flow”, “withdrawal of fund” and “balance of own funds” cover the highest proportion among return conditions. 62.5% of return conditions includes “recovery of cash flow”. Companies whose return condition is “withdrawal of fund” and “balance of own funds” account for 11.36% and 9.09% respectively. The above statistical analysis shows that “recovery of cash flow” is the primary factor that most companies consider while making a decision on return of principal, since it is the most basic return condition whether in the upward cycle or in the downward cycle of the real estate market.

“Recovery of operational cash flow” is taken as the first return condition under the premise of safety of project fund and some companies take “recovery of accumulative net operational cash flow” as the return condition. Relative to recovery of accumulative net operational cash flow, recovery of operational cash flow is easier to realize and more conducive to capital turnover. Besides, it is more objective to take operational cash flow as the return condition and avoids influence of financing cost when recovery of accumulative net operational cash flow is taken as the return condition. Meanwhile, “reservation of operating expense of the following 6 months” among first return conditions provides another guarantee for fund security. In

the downward cycle of the real estate market, “reservation of operating expense of the following 6 months” can be eliminated to better meet return conditions and shorten return time.

In the real estate industry, project fund often consists of bank loan, several partners and own funds. Taking “withdrawal of fund” as the second return condition lays emphasis on shareholder benefit security and shareholder benefit is superior to follow-up investor’s benefit so that principal is returned for the second time after shareholder benefit is satisfied. “Withdrawal of fund” is taken as the second return condition because it is stricter than recovery of cash flow and easier to realize than balance of own funds.

“Balance of own funds” is taken as the third return condition because it is the strictest. Since this condition puts follow-up investor’s benefit at the posterior grade, some enterprises do not choose it in consideration of many aspects. According to further analysis, balance of own funds can be eliminated in the downward cycle of the real estate market in order to return the principal after withdrawal of fund and reduce the risk of grass-roots staff’s loss.

5.1.3 Analysis of Return Mechanism for Enterprises of the Same Industry

The return mechanism of Vanke and Country Garden, which implemented follow-up investment system very early, is worthy of reference.

While setting the return time, Vanke requires to return the principal according to amount of funds deposited under the condition of safe funds in the following 6 months after follow-up investment project reaches the maximum operational cash flow.

After Country Garden practices project follow-up investment, principal will be returned after 5 years' closed operation of group and regional investment company. During closed operation, project company can allocate surplus cash to investment company after project fund reaches the peak value and investment company can continue investing in new projects of group after receipt of surplus fund^①.

The advantage of Vanke's return mode is that it can not only build follow-up investor's confidence in follow-up investment project quickly, but also ensure security of project fund. Investment company should return the principal of Country Garden's follow-up investment after a long closed period and project company's surplus fund can be lent to investment company for reinvestment. This mode has high yield, but return period is long and follow-up investor's confidence may be shattered easily. Return mechanism of Vanke and Country Garden is of guiding significance for design of return mechanism.

^① Source: *Effect of Country Garden's follow-up investment system*. SOHU.COM.
https://www.sohu.com/a/335476877_100158239

5.1.4 Design of Return Mechanism

Based on the above analysis, project fund is allocated according to “debt > principal > interest > profit” and “the same shareholding ratio of follow-up investor and majority shareholder” whether integrated development or phased development. A reasonable and feasible return mechanism is designed as follows:

In the upward cycle of the real estate market, project company should return 50% of principal to follow-up investment company within 30 days when operational cash flow recovers and operating expense of the following 6 months is reserved. When shareholder’s fund is withdrawn, project company should return a total of 75% of principal to follow-up investment company within 30 days. When own fund is balanced, project company should return a total of 100% of principal to follow-up investment company within 30 days. In the downward cycle, project company should return 75% of principal to follow-up investment company within 15 days when operational cash flow recovers. When shareholder’s fund is withdrawn, project company should return a total of 100% of principal to follow-up investment company within 15 days.

In the designed return mechanism, return condition is set based on actual project progress and difference in upward and downward cycles of the real estate market and reflects the entire process from development to making

profit. Besides, the return mechanism that project company returns the principal several times according to withdrawal of fund and allocation in the development stage is a mechanism satisfies follow-up investor's need to the greatest extent and manages project risk reasonably in follow-up investment activities of the real estate industry. It can quickly build follow-up investor's confidence in follow-up investment project, protect security of project fund and ensure project risk controllable.

5.2 Analysis and Design of Profit Sharing Mechanism

Existing theories and researches show that profit from follow-up investment of real estate enterprise is shared according to the following two basic principles:

First, when cash flow is safe, debt is paid off and follow-up investment project will not get stuck in financial strain in a long expected time, profit from follow-up investment should be shared.

Second, profit is the precondition of dividend distribution and it is possible to distribute dividends only when profit is positive. However, final profit cannot be determined before completion of project development, so enterprise often distributes dividends in advance according to estimated profit.

Profit sharing mechanism mainly includes three aspects: Time node, frequency and condition. These three aspects are analyzed thoroughly and a reasonable and feasible profit sharing mechanism is designed according to

profit sharing mechanism of counterparts and difference in upward and downward cycles of the real estate industry.

5.2.1 Analysis of Profit Sharing Time Node

Profit sharing time node is different. Considering big difference of real estate project, real estate enterprise often does not set special profit sharing time node to protect enterprise benefit.

According to management information disclosed by project company, most real estate development projects have high turnover and quick withdrawal of fund and can make profit in six months. Although specific profit sharing time node is not set, follow-up investor often gain profit in a short time.

Whether in the upward cycle or in the downward cycle of the real estate market, real estate enterprise must follow the basic principle of dividend distribution, estimate project risk reasonably and adopt preventive measures.

5.2.2 Analysis of Profit Sharing Frequency

Questionnaire survey shows that repeated profit sharing prevails, which can arouse employee's enthusiasm, accelerate withdrawal of fund and facilitate to invest in more projects whether in the upward cycle or in the downward cycle of the real estate market. Moreover, project company distributes dividends repeatedly to retain profit, make overall arrangements of

fund, carry out continuous operation and avoid short-term effect, which not only satisfies most follow-up investors need for income, but also continuously motivates follow-up investor to better engage in project operation and ensures project is delivered with time and quality guaranteed.

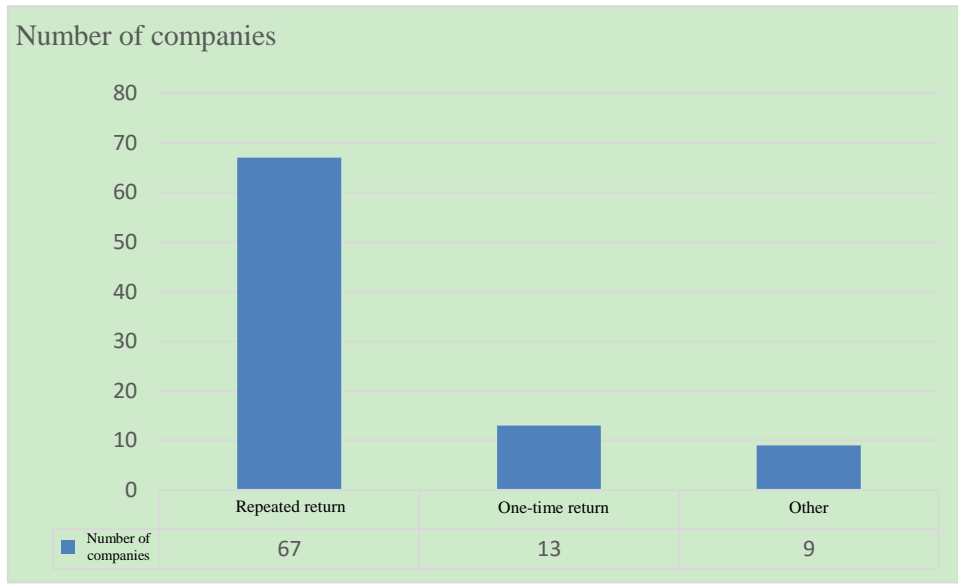


Fig. 5.3 Profit sharing frequency

5.2.3 Analysis of Profit Sharing Condition

According to questionnaire survey, profit sharing condition of 47.19% of 88 companies includes “recovery of net operational cash flow”, that of 38.2% of companies includes “positive net profit”, that of 20.22% of companies includes “selling rate reaches 90%-95%”, that of 23.6% of companies includes “completed sales area reaches 90%-95%” and that of 17.98% of companies includes “yield-linked”.

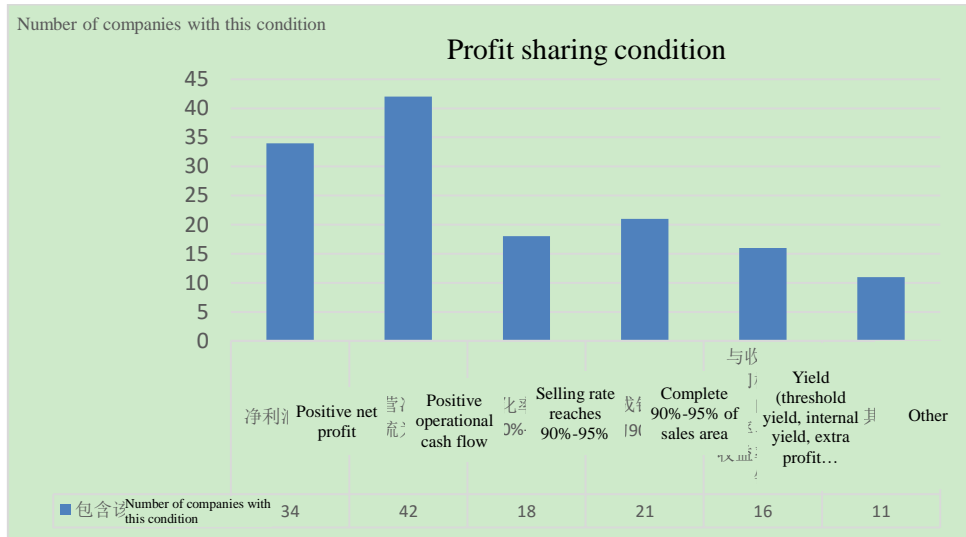


Fig. 5.4 Profit sharing condition

It can be seen that recovery of net operational cash flow and positive net profit are the basic conditions for profit sharing, selling rate or completed sales area is the sales-linked condition, and yield-linked represents high business management level.

“Recovery of operational cash flow” means that projects not reaching the requirement may suffer from loss, “positive net profit” means that dividends can be distributed only when profit is positive and “selling rate reaches 90%” means that dividends must be distributed after project is basically completed. In the real estate industry, selling rate or sales area is often set as profit sharing condition and selected according to sales statistics. Generally, enterprises selling large houses tend to select sales area and those selling small houses tend to select selling rate. Furthermore, “recovery of operational cash flow, positive net profit and selling rate reaches 90%” mean that dividends must be distributed when project risk is controlled.

If profit sharing is linked to yield upon settlement, it means high project management level. If yield is linked to internal management system, threshold yield can be set to reduce professional ethical risk of follow-up investor and excess yield can be set to link management system and achieve a better incentive effect. Follow-up investor also should bear loss and follow-up investor is tied to corporate profit to better implement the follow-up investment system.

In the downward cycle of the real estate market, net profit and operational cash flow are still the basic profit sharing conditions, but selling rate, completed sales area and threshold yield should be eliminated or sharply reduced.

5.2.4 Profit Sharing Mechanism Analysis of Vanke and Country Garden

The profit sharing mechanism of Vanke and Country Garden, which implement follow-up investment system early, is worthy of reference.

Vanke distributes dividends after accumulative net operational cash flow recovers. To be specific, no more than 60% of profit should be distributed before project settlement, no more than 80% should be distributed after project settlement and 20% of profit should be reserved and distributed at a time upon project liquidation or debt repayment. This mode can not only ensure cash flow stability and normal operation of project but also boost

follow-up investor's confidence and enthusiasm, since profit is distributed in a reasonable time^①.

Despite late profit sharing time node, Country Garden allows follow-up investor of group's investment company and regional investment company to share profit in advance. Group's investment company can share profit once a year on the premise of positive earnings and cash surplus and follow-up investor can choose to invest dividends in other project companies.

If profit distributed in advance is more than accumulative distributable profit, follow-up investor should return the difference; otherwise, three treatment measures can be adopted: First, the difference should be deducted from group income and principal; second, the part that cannot be deducted from group income and principal should be borne by person responsible for the center; third, if there is still a difference after the first two measures are adopted, group president and CFO should make up the difference as per 6:4. When predicted selling rate of project company reaches 80% and net operational cash flow is positive and is predicted to be positive continuously, regional investment company can apply for advance dividend distribution semiannually. If profit distributed in advance is more than accumulative distributable profit, follow-up investor should return the difference; otherwise, regional president and project manager should bear 50% of the difference

^① Source: Sun Xudong. *Comment on profit distribution plan of Vanke in 2018*.
http://blog.sina.com.cn/s/blog_59d5d75d0102ypqt.html

respectively. Besides, Country Garden's follow-up investment project company formally distribute 95% of total profit after projects are completed and settled, at least 95% of marketable houses are sold and at least 95% of sold commercial residential buildings are delivered. Upon project liquidation, 100% of total profit should be distributed. Country Garden distributes profit only after project makes profit under the premise of enterprise income security. In mechanism design, Country Garden designs advance profit sharing mechanism to balance employee's acceptability. However, Country Garden's profit sharing standard remains to further reduced or lowered in the downward cycle of the real estate market^①.

The profit sharing mechanism of Vanke and Country Garden is of guiding significance for design of profit sharing mechanism:

1. In the upward cycle of the real estate market, profit can be distributed partly upon yearly settlement to resist the risk that actual profit is less than predicted profit upon liquidation. In the downward cycle, profit should be distributed when basic profit sharing conditions are met to reduce potential loss on follow-up investment and boost follow-up investor's confidence. Moreover, upper limit limited to profit sharing ratio can be set after settlement and profit can be reserved to be distributed at a time after project liquidation or debt repayment to further reduce potential risk.

^① Source: "Top-secret" analysis report on follow-up investment of Vanke & Country Garden. SOHU.COM. https://www.sohu.com/a/226029818_608107

2. Specific to advance profiting distribution, project company should establish safeguard mechanism. When profit distributed in advance is more than accumulative distributable profit, follow-up investor should return the difference or continue investing the difference in other project in a reasonable proportion, which not only protects company interest but also raises follow-up investment ratio and amount through discount, so as to ensure operation of more follow-up investment projects of project company.

5.2.5 Design of Profit Sharing Mechanism

Based on the above analysis, profit sharing mechanism is designed according to difference in the upward and downward cycles of the real estate market as follows:

5.2.5.1 Upward Cycle of Real Estate Market

When operational cash flow and net profit are positive and selling rate reaches 90%, profit should be distributed in advance as per 60% of estimated income and profit should be distributed according to yield upon settlement.

If annual yield of project is 0%-12% upon settlement, profit should be distributed to follow-up investor as per annual yield. If annual yield of project is 12%-18%, profit should be distributed to follow-up investor as per 1.2 times of annual yield. If annual yield of project is 18%-25%, profit should be distributed to follow-up investor as per 1.5 times of annual yield. If annual

yield of project is greater than 25%, profit should be distributed to follow-up investor as per 1.8 times of annual yield.

If annual yield of project is -12% -0% upon settlement, follow-up investor should bear loss as per annual yield. If annual yield of project is -18%--12%, follow-up investor should bear loss as per 1.2 times of annual yield. If annual yield of project is -25%--18%, follow-up investor should bear loss as per 1.5 times of annual yield. If annual yield of project is less than -25%, follow-up investor should bear loss as per 1.8 times of annual yield.

Table 5.1 Profit sharing condition and amount in the upward cycle of the real estate market

When $-12\% \leq \text{Annual yield} \leq 12\%$	Yield of follow-up investor = Annual yield of project
When $12\% < \text{Annual yield} \leq 18\%$	Yield of follow-up investor = Annual yield of project $\times 1.2$
When $18\% < \text{Annual yield} \leq 25\%$	Yield of follow-up investor = Annual yield of project $\times 1.5$
When $25\% < \text{Annual yield}$	Yield of follow-up investor = Annual yield of project $\times 1.8$
When $-18\% \leq \text{Annual yield} < -12\%$	Yield of follow-up investor = Annual yield of project $\times 1.2$
When $-25\% \leq \text{Annual yield} < -18\%$	Yield of follow-up investor = Annual yield of project $\times 1.5$
When $\text{Annual yield} < -25\%$	Yield of follow-up investor = Annual yield of project $\times 1.8$

5.2.5.2 Downward Cycle of Real Estate Market

In the downward cycle of the real estate market, advance profit sharing should be canceled, annual yield should be changed to quarterly yield, quarterly yield should decrease appropriately, profit sharing ratio should have a fold increase and loss ratio should have a fold decrease. Consequently, profit should be distributed immediately after the end of quarter to shorten the risk

cycle and reduce the risk of loss. Profiting sharing mechanism is designed as follows:

If quarterly yield of project is 0%-8% upon settlement, profit should be distributed to follow-up investor as per 1.2 times of quarterly yield. If quarterly yield of project is 8%-14%, profit should be distributed to follow-up investor as per 1.4 times of quarterly yield. If quarterly yield of project is 14%-20%, profit should be distributed to follow-up investor as per 1.6 times of quarterly yield. If quarterly yield of project is greater than 20%, profit should be distributed to follow-up investor as per 2 times of quarterly yield.

If quarterly yield of project is -8%-0%, follow-up investor should bear loss as per quarterly yield. If quarterly yield of project is -14%--8%, follow-up investor should bear loss as per 1.1 times of quarterly yield. If quarterly yield of project is -20%--14%, follow-up investor should bear loss as per 1.2 times of quarterly yield. If quarterly yield of project is less than -20%, follow-up investor should bear loss as per 1.3 times of quarterly yield.

Table 5.2 Profit sharing condition and amount in the downward cycle of the real estate market

When $-8\% \leq \text{Quarterly yield} \leq 8\%$	Yield of follow-up investor = Quarterly yield of project $\times 1.2$
When $8\% < \text{Quarterly yield} \leq 14\%$	Yield of follow-up investor = Quarterly yield of project $\times 1.4$
When $14\% < \text{Quarterly yield} \leq 20\%$	Yield of follow-up investor = Quarterly yield of project $\times 1.6$
When $20\% < \text{Quarterly yield}$	Yield of follow-up investor = Quarterly yield of project $\times 2$
When $-14\% \leq \text{Quarterly yield} < -8\%$	Yield of follow-up investor = Quarterly yield of project $\times 1.1$
When $-20\% \leq \text{Quarterly yield} < -14\%$	Yield of follow-up investor = Quarterly yield of project $\times 1.2$

In the upward cycle of the real estate market, low profit sharing condition is the direct cause of high follow-up investment income and weakening of company benefit, so a high standard should be set based on profit sharing condition. In the downward cycle, high profit sharing condition is the cause of loss of employee benefit and excessive project loss, so a low standard should be set based on profit sharing condition. Positive net operational cash flow and positive net profit are the basic profit sharing conditions, selling rate or completed sales area is the sales-linked condition and yield-linked profit sharing represents high enterprise management level. It is important for balancing company benefit and follow-up investor's benefit to avoid one-time profit sharing. For this reason, project company should identify the conditions for first advance profit distribution: First, operational cash flow is positive; second, net profit is positive; third, selling rate reaches 90%. Then, profit should be distributed (for the second time) according to yield upon settlement. According to return mechanism, project company identifies strict profit sharing condition and fully exploits the effect on "sharing" follow-up investor's benefit. Besides, project company distributes dividends by two steps to avoid latent high yield of follow-up investor and ensure cash flow stability and normal operation of project. Advance profit distribution also balances follow-up investor's acceptability and boosts their confidence and

enthusiasm. In the downward cycle of the real estate market, it is reasonable for real estate enterprise to cope with risk through lowering profit sharing standard and canceling advance profit distribution^①.

Meanwhile, it is reasonable for setting profit distribution amount to design profit sharing mechanism. First, project company distributes profit in advance for the first time as per 60% of anticipated income to avoid controllable risk caused by optimistic estimate of project prospect and excessive advance profit distribution to project cash flow. Then, project company links profit distribution amount to annual yield of project. For project with extra profit, extra profit should be distributed as per extra value and extra profit means to assume extra responsibility. This mechanism enlarges the scope of equity and constraint and scales up income or loss. Profit should be distributed as per 1.2 times of actual equity ratio if annual yield of project exceeds 12%, 1.5 times if annual yield of project exceeds 18% and 1.8 times if annual yield of project exceeds 25%. On the contrary, loss should be borne in equal proportion. Linking extra project to annual yield of project^② helps distribute project more fairly and reasonably, encourages follow-up investor to create extra profit and avoid loss. In the downward cycle of the real estate market, decrease in profit sharing ratio and yield threshold

^① Source: *From surge to ebb: Change and thinking of follow-up investment system of real estate enterprise*. Hexun.com. <https://house.hexun.com/2019-10-20/198928088.html>

^② Source: *An article tells you how to follow up investment? I need not to worry about boss's question anymore*. Baidu. <https://baijiahao.baidu.com/s?id=1580964264803611216&wfr=spider&for=pc>

and profit sharing time advance help real estate enterprise better resist risk and boost follow-up investor's confidence.

In recent years, real estate control resulted in a downward of the real estate market and profit rate of some projects declined. According to computational formula of annual yield: $\text{Yield} = \text{net profit rate} / \text{land-cargo ratio} \times \text{cash flow recovery time}$ (land-cargo ratio is the ratio between land value and cargo value), based on land-cargo ratio of first-tier cities of 50% and in consideration of financial deleverage and slow project turnover and low selling rate. Annual yield is only 5% if net profit rate is 5%, land-cargo ratio is 50% and cash flow recovers in two years. Thus, it is of great significance for motivating follow-up investor to ensure business operation and growth to elevate profit sharing frequency and ratio and shorten profit sharing time in the downward cycle of the real estate market.

Like most real estate enterprises, specific time node should not be set for profit sharing mechanism, high profit sharing condition should be set and three conditions must be met to avoid latent risk of high yield. In the downward cycle, profit sharing mechanism to reduce profit sharing time node and low profit sharing condition is set. Furthermore, profit sharing amount of profit sharing mechanism is designed in an innovative way and annual or quarterly yield of follow-up investment is manyfold linked to difference in the upward and downward cycles and follow-up investor's income to enlarge the scope of equity and risk sharing, better control risk and motivate follow-up

investor. Based on follow-up investment status of the real estate industry, improvement scheme for profit sharing mechanism is presented in this chapter. Generally speaking, project company sets profit sharing ratio in an innovative way and the profit sharing mechanism is of reference significance for other real estate enterprises.

5.3 Summary

Status and design of return and profit sharing mechanisms are analyzed and studied in this chapter.

Return of principal is the lowest requirement for follow-up investment and a scientific and reasonable return mechanism can continuously boost follow-up investor's confidence in project, protect project fund security and ensure project risk controllable. Return frequency, amount and ratio are the key for design of return mechanism.

Profit sharing is the ultimate purpose of follow-up investment, profit sharing frequency, amount and condition are the core of profit sharing mechanism, repeated profit sharing, recovery of operational cash flow and normal project operation within amount half a year are profit sharing conditions, and profit sharing amount and condition and project schedule and profit condition such as selling rate supplement each other.

Moreover, difference in the upward and downward cycles of the real estate market has a different impact on return and profit sharing mechanisms.

In the upward cycle, return and profit sharing standard is high and amount changes greatly with project progress. In the downward cycle, real estate enterprise focuses more on lowering return and profit sharing conditions, raising profit sharing frequency and ratio, boosting follow-up investor's confidence and reducing potential risk.

CHAPTER 6. Analysis of Follow-up Investment Leverage and Bottoming of Real Estate Enterprise

Based on yearbook of the real estate industry and survey data, leverage and bottoming mechanism for follow-up investment system is analyzed and designed in this chapter.

6.1 Funding Leverage and Project Follow-up Investment

In the upward cycle of the real estate market, follow-up investment, as a new employee incentive measure, provides employee with funding leverage, which is good for both enterprise and employee.

First, funding leverage can ease follow-up investor's financial burden and facilitate to promote follow-up investment quickly. It is hard for employee to invest in project with a lot of own funds. If company offers loans, their financial stress will be relieved and enthusiasm will be aroused to avoid unsuccessful implementation of follow-up investment arising from financial stress in the fundraising stage.

Then, funding leverage can increase the incentive effect on employee and avoid project risk. Employees investing with loan will inevitably be more cautious about land acquisition, which is conducive to choosing projects with high yield and low risk to improve project income and quality.

Project follow-up investment system has a stronger incentive effect and it partly relies on elevating ROI using fund leverage. In design of follow-up investment system, whether funding leverage is provided to follow-up investor is closely related to enterprise nature and scale. State-owned enterprise often does not provide funding leverage to follow-up investor because of system; while private enterprise provides a certain proportion of leverage to employee according to financing capacity and higher leverage to key employees to bind employee benefit with project risk. Enterprise can provide funds to employee as appropriate and increase leverage to increase income in order to better motivate employee.

Funding leverage of follow-up investment should be designed in overall consideration of equity ratio, number of follow-up investors and compensation level^①.

In the downward cycle of the real estate market, real estate enterprise should be alert about negative influence on follow-up investor that may be caused by high interest rate arising from a high proportion of funding leverage.

Follow-up investment is risky. In the downward cycle of the real estate market, it is hard to ensure project follow-up investment income and follow-up investor will lose option once employee is forced to conduct

^① Source: *Analysis of design of "follow-up investment system" of real estate enterprise*. SOHU.COM.
https://www.sohu.com/a/281499450_120047348

leverage funding and use leverage and funding rules set by company. Thus, “incentive” turns “constraint” and employee will suffer from unpredictable economic loss. If risk pooling exceeds profit sharing, it will have a side effect on internal management and real estate enterprise should consider it carefully. Therefore, the biggest difficulty in the concept “profiting sharing and risk pooling” behind funding leverage is control the “degree” and the key is to whether real estate enterprise’s management systems for right and responsibility are well-matched and adapt to development law of the real estate market.

6.1.1 Status Survey of Funding Leverage of Follow-up Investment Enterprise

Survey result showed that 59 out of 98 companies provided funding leverage to follow-up investor, accounting for 60.2% and 39 companies did not provide funding leverage, accounting for 40.8%. 44 out of companies providing funding leverage provided funding leverage to group’s top management such as chairman, president and vice president. 4 provided 1:1 and 1:2 funding leverage to group’s top management, 17 provided 1:3 funding leverage and 15 provided 1:4 funding leverage. Funding leverage provided to group’s top management was mainly 1:3-1:4.

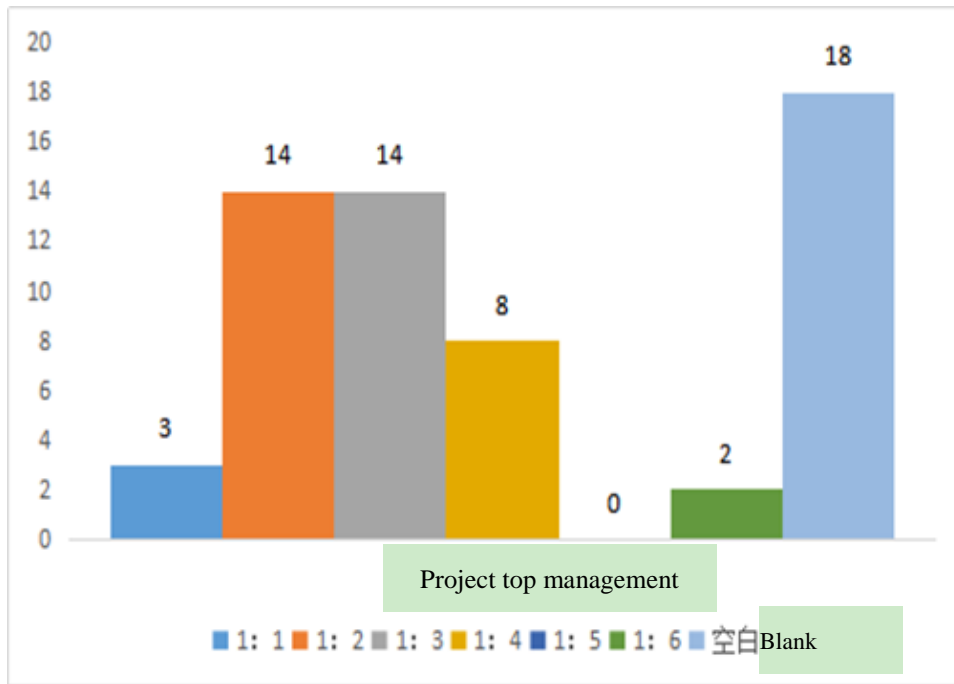


Fig. 6.1 Setting of top-level funding leverage of project

41 out of companies providing funding leverage provided funding leverage to top management or urban or project company, which was different from leverage ratio of 1:3 and 1:4 to group's top management and urban company's management. 15 companies provided 1:2 funding leverage to project management and only 8 companies provided funding leverage greater than 1:4 to project management. It's visible that funding leverage ratio of project management was mainly 1:2-1:3.

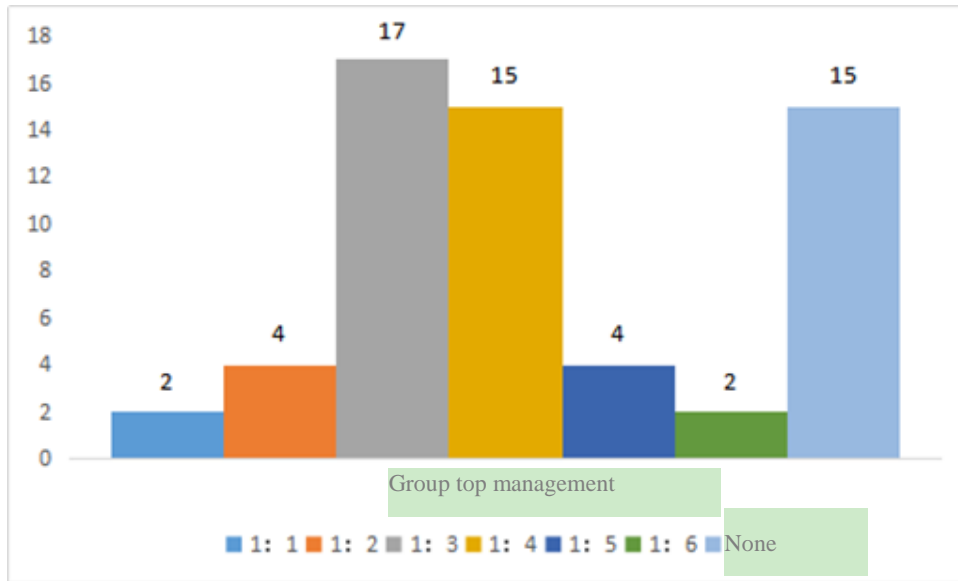


Fig. 6.2 Setting of funding leverage of group top management

Relative to top management of group, regional company or project company, leverage ratio of other staffs at the production line was mainly 1:1 and 1:2. 25 companies provided other staffs of group with funding leverage and 22 companies provided with staffs of urban company and project team with leverage: 7 companies provided 1:1 funding leverage, 5 provided 1:3 funding leverage, 3 companies provided 1:4 funding leverage and 2 companies provided 1:6 funding leverage. Company provided the sale funding leverage to front-line follow-up investor of group, urban company and project company.

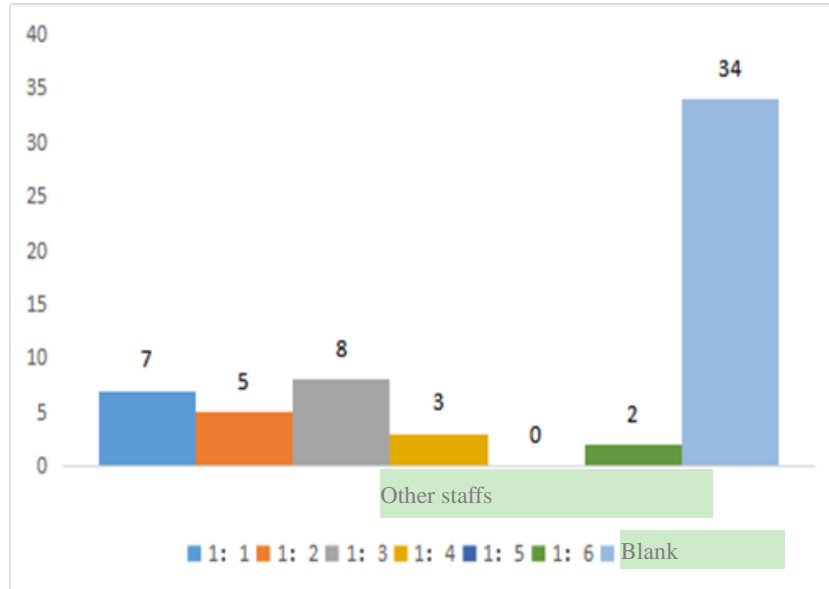


Fig. 6.3 Setting of funding leverage of other staffs

6.1.2 Design and Analysis of Funding Leverage of Follow-up Investment Enterprise

Based on the above analysis and survey result, three key evaluation factors are summarized for designing funding leverage of project follow-up investment system of real estate enterprise.

6.1.2.1 Whether There Is Funding Leverage

101 companies held different opinions about whether to choose funding leverage. Nearly a half does not provide funding leverage to follow-up investor because of difference in enterprise nature, scale and development stage. Small and medium-sized private enterprises can hardly provide funding leverage due to financial stress, large private enterprise often provides follow-up investor with funding leverage to increase the incentive effect due

to broad capital channel, and state-owned enterprise cannot provide funding leverage for system requirements.

Thus, whether to provide funding leverage and to whom funding leverage should be provided are determined by enterprise nature, scale and development stage in design of follow-up investment system. For example, providing funding leverage to mandatory follow-up investor and not providing funding leverage to voluntary follow-up investor can better motivate core employees.

6.1.2.2 Object and Proportion of Funding Leverage

Funding leverage is mainly provided to management of group and regional urban company instead of staffs at the production line. There is a difference in funding leverage ratio of group's management, regional urban company's management and other staffs at the production line and the overall ratio is 2-4.

It is because follow-up investor's compensation level, number of follow-up investment projects and their financial capacity are different. Mandatory follow-up investor who participates in more projects and has a higher investment amount is often key employee of enterprise and enterprise provides a relatively higher leverage ratio to them to relieve their financial stress and raise their enthusiasm to avoid the phenomenon that follow-up investment cannot be implemented due to financial problem in the fundraising

stage. Key employees who invest own funds and loans will make decisions on project operation and land acquisition more prudently to choose projects with high yield and low risk and achieve business objectives.

In addition, a too high funding leverage ratio will give rise to high interest and high risk to managers participating in follow-up investment. Leverage and funding will increase follow-up investor's income and risk, so project follow-up investment system will deviate from the original purpose of incentive in a market downturn. If risk pooling exceeds profit sharing, it will have a side effect on internal management, so leverage ratio is limited to 2-4 according to general industry trend.

6.1.2.3 Option and Interest Rate of Funding Leverage

Some enterprises require mandatory follow-up investor to use leverage according to level, namely some follow-up investors have no option of funding leverage. Besides, annual interest rate of most enterprises implementing follow-up investment system is 8%-10%, which is higher than bank rate. In follow-up investment system, freedom degree of enterprise's and employee's option and reasonability of leverage ratio should be considered for providing leverage and funding to mandatory follow-up investor. For instance, when newly-increased follow-up investment amount reaches above a certain proportion of total income in the preceding year, mandatory follow-up

investor can apply for halving the lower limit of remaining follow-up investment amount and certain leverage of own funds^①.

Company can provide follow-up investor with loan according to proportion to achieve leverage income and charge interest. Leverage ratio of most enterprises implementing follow-up investment system is 1: 2-1: 4 and annual interest rate 8%-10%. However, some enterprises still require mandatory follow-up investor to use leverage according to level^②, namely they have no option.

Follow-up investment leverage is a double-edged sword, for which huge loss and income coexist. An enterprise used 1:20 leverage and annual interest rate up to 15%. As a result, high interest brought heavy financial stress to follow-up investor.

In the downward cycle of the real estate market, leverage should be lowered and even canceled to ease mandatory follow-up investor's burden and boost their confidence in company and project. If the essence of "follow-up investment" is financial investment product, leverage and funding should consider equivalence and freedom degree of both parties' option and reasonability of leverage ratio. Follow-up investor can get stable benefit in a moderate or rising market, but in a market downturn, housing sales decrease

^① Source: *Top topic-Should real estate follow-up investment be abolished?* SOHU.COM.

https://www.sohu.com/a/407478003_99986045

^② Source: *Mixed-ownership reform innovation-Calm thinking of follow-up investment system of state-owned project-Employee.* SOHU.COM. https://www.sohu.com/a/331159040_155346/

and “incentive” turns “constraint”, which brings a heavy burden to follow-up investor. Gradually, some enterprises adjust leverage ratio of follow-up investment. Presently, leverage ratio of most enterprise implementing follow-up investment system is 1: 2-1: 4 and annual interest rate is 8%-10%, which is basically a rational state.

6.1.2.4 Example of Funding Leverage System Design

H company offers loan to employee through investment and financing platform established by the group and employee signs a loan contract with the platform and pays principal and interest as agreed, as shown below.

Table 6.1 Allocation of funds at different levels of H company

Group	President	1:6
	Vice president	1:5
	General manager of center, person responsible for market planning, person responsible for project expansion	1:4
	Executive vice president of center, deputy general manager	1:3
Project	General manager	1:5
	Executive vice president, marketing director, expansion director, financial director	1:4
	Person responsible for financing, design and cost	1:3
	Other personnel	1:3

Note: Interest should be calculated as per annual interest rate of 10% temporarily and interest rate change should be subject to the latest announcement of the group’s Finance Center

Follow-up investor can choose any proportion of funding or no funding under the maximum funding ratio. Interest should be calculated as of 2 months (investment time of own funds) after land acquisition until recovery of accumulative cash flow.

6.2 Bottoming System and Project Follow-up Investment

Bottoming is principal safeguard mechanism and employee's participation in follow-up investment with own funds is equal to investment. Employee should focus more on follow-up investment risk than income. Considering possibility of loss and unpredictability of operational risk in the downward cycle of the real estate market, project follow-up investment system is risky to follow-up investor. Employee with weak risk resistance has a low income level and some follow-up investment projects have slow turnover and long capital recovery period, which increases follow-up investment risk.

Before investing capital, follow-up investor should consider fund security first. To resolve their worries and arouse their enthusiasm, some enterprises not only consider adjusting funding leverage, but also adopt bottoming mechanism. That is, they promise follow-up investor to ensure a certain proportion of principal. Appropriate bottoming can be considered in the upward cycle of the real estate industry and it must be adopted in the

downward cycle to ensure security of principal and boost follow-up investor's confidence.

6.2.1 Status Survey of Bottoming System of Follow-up Investment Enterprise

Survey result showed that 42 out of 98 companies provided follow-up investor with principal security plan. The security ratio of 30% of companies was 45%, that of 30% of companies was 35%, that of 24% of companies was 25% and that of 14% of companies was 60%.

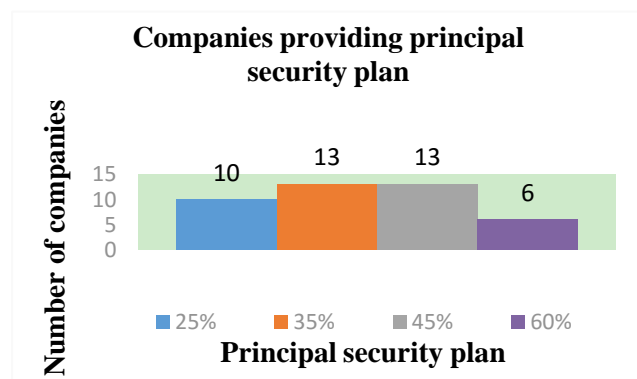


Fig. 6.4 Presentation of sample of principal guarantee plan

51 out of 98 companies identified the responsibility of follow-up investor of defective item, among which 6 companies required relevant personnel to assume full unlimited liability for defective item and 45 companies required follow-up investor to assume limited liability for defective item.

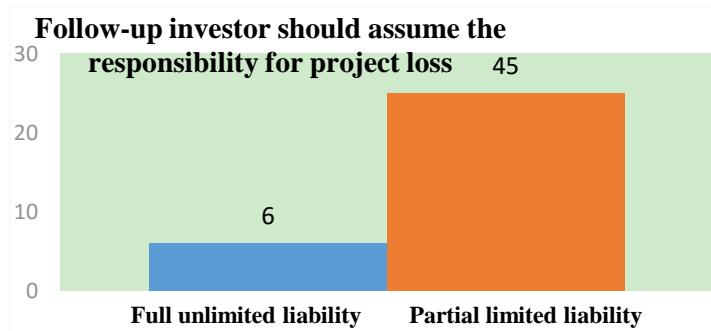


Fig. 6.5 Assumption of follow-up investment responsibility

6.2.2 Design and Analysis of Bottoming System of Follow-up Investment Enterprise

6.2.2.1 Design of Principal Guarantee Plan

Based on the above analysis and according to questionnaire survey, 42.9% of companies provide follow-up investor with principal security plan and some identified follow-up investor's limited liability for loss to reduce their risk.

Thus, bottoming system can be designed through reference to principal security plan and principal security plans with a ratio of below 60% are designed according to enterprise status. Besides, responsibility of follow-up investor of defective item can be identified as a supplement of principal security to improve design of bottoming of follow-up investment system.

6.2.2.2 Example of Bottoming System Design of H Company

H company implements follow-up investment with constant return. To ensure team stability and raise employee's enthusiasm, the company allows

employees registering before December 31 to participate in follow-up investment with constant return as follows:

Follow-up investment scope: Employees registering before December 31.

Follow-up investment amount and ratio are shown below:

Table 6.2 Follow-up investment amount and ratio

Level	Scope	Maximum amount of follow-up investment (ten thousand Yuan)
1	President	350
2	Vice president	200
3	Above project manager and deputy manager of center	150
4	Department manager or above	100
5	Below department manager	50

Description:

1. Constant rate of return on follow-up investment of employees registering no later than June 30 is 15%.

2. Constant rate of return on follow-up investment of employees registering after June 30 and before December 31 is 13%.

3. Follow-up investment period is set as one year.

4. Investor should file an application for constant return on follow-up investment. After confirming quota and interest rate, the Personnel Department should sign *Agreement on Follow-up Investment with Constant*

Return and transfer follow-up investment fund to the designated account before 20th of current month (agreement is signed on 20th) or on 20th of next month (agreement is signed after 20th). Interest should be calculated as of 20th of the first month after transfer and should be paid quarterly on March 20, June 20, September 20 and December 20.

5. Except separating employee, follow-up investor cannot withdraw fund before the deadline. If they need to withdraw fund for special reason, they should report to the president for approval.

6. Separating employee can file an application and go through the formalities for withdrawal upon examination of the Personnel Department and with the approval of HR VP. 20th of the first month after withdrawal should be actual settlement date and principal and interest should be returned to employee on the settlement date. Company should return principal and interest of follow-up investment to employee at a time and employee can rehandle the procedure for follow-up investment with company's consent.

6.2.2.3 Design of Bottoming System Design of J Company

J company is a diversified enterprise specializing in real estate development and integrating assets operation and property management. The company has settled in 39 cities such as Guangzhou, Shanghai, Beijing and Hong Kong and completely covers Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta urban agglomerations, circum-Bohai-sea

region, midwest area and other key urban economic circles. By December 31, 2019, the company has had total assets valued about 214.3 billion Yuan and a gross floor area of about 170.1 million square meters.

J company's sales grew slowly from 2012 to 2016, much slower than leading enterprises of the industry. To break the development bottleneck, it has accelerated transregional land acquisition, actively expanded land reserve, established scaled and standard systems and comprehensively improved operating management level since 2017.

To avoid the risk of land acquisition, promote strategic development and catch up with business expansion, the company started to explore and build more effective incentive mechanism and implemented project follow-up investment system in 2017. Although project follow-up investment system was implemented for a short time, a good effect was achieved through years of development. Leverage allocation and distribution mechanism and withdrawal mechanism were designed to achieve the goal and avoid the risk.

As to allocation of fund leverage, J company provided mandatory follow-up investor with 1:3 leverage and did not provide leverage to voluntary follow-up investor, which had a better incentive effect on key employees. Flexible policy was also set. If the amount of new follow-up investment reached above 50% of pre-tax income of the preceding year, mandatory follow-up investor can apply for halving the lower limit of project follow-up investment and at most 5 times of leverage of own fund. Interest of follow-up

investor using fund leverage should be deducted when profit is distributed for the first time.

It can be seen that while designing funding leverage, J company tried to ensure that employee made money and arouse their enthusiasm, fully considered their financial capacity according to income level, set different follow-up investment amounts for different persons, provided mandatory follow-up investor with fund leverage and undertook breakeven of defective item. As a result, employee took great interest in follow-up investment and the subscription amount of several projects has exceeded the total follow-up investment amount since project follow-up investment system was initiated in 2017.

Design of funding leverage and bottoming of project follow-up investment system of J company is similar to mainstream design of typical real estate enterprise and conceptual design of project follow-up investment can be used as reference for other private real estate enterprises. For follow-up investor, the follow-up investment system can follow the principle of incentive first and profitability. On one hand, different follow-up investment amounts are set according to level of follow-up investor and fund leverage no less than 3 times and no more than 5 times is provided to mandatory follow-up investor. On the other hand, if defective item occurs in special case, the follow-up investment team can request for a rational withdrawal solution.

6.2.2.4 Design of Leverage and Bottoming System of Z Company

Z company's sales rapidly increased from 19 billion Yuan in the end of 2016 to 101.5 billion Yuan in two years and the real estate market entered an adjustment stage. Z company's follow-up investment project had the risk of loss. Mandatory follow-up investor includes group top management, regional top management and core management, so follow-up investor will not only lose the principal but also cover the "defective item" if profit rate cannot reach the standard.

Z company's "follow-up investment" based on Amoeba mode requires regional department head or above to participate in follow-up investment. The investment ratio of president and vice president of holding group and regional group participating in mandatory follow-up investment is 1:4 and that of person responsible for finance, marketing and planning is 1:3. Interest rate of group is 10%, so principal and interest are guaranteed even though the principal of personal follow-up investment is lost and employee participating in follow-up investment should assume the liability of indemnity^①.

According to Z company's internal estimate, net profit rate of 4% is a "balance point". When net profit rate of a project is 4%, follow-up investor neither shares profit nor loses the principal. When net profit rate of a profit is less than 4% and greater than 0%, president's own fund is ensured and

^① Source: *Zhaoqing project: Follow up investment? Pay extra money after losing the principal-Real estate market*. SOHU.COM. https://www.sohu.com/a/379992931_120531490

president makes profit, but follow-up investor starts to lose the principal. When net profit rate of a project is 0%, president reaches the BEP, but follow-up investor almost loses the principal. If a project cannot make profit, president will suffer from loss and follow-up investor will pay for the keeping of an unprofitable business. That is, follow-up investor will lost the principal and bear interest and loss according to investment ratio.

Follow-up investment has a good incentive effect in the upward cycle of the real estate market, but it does not protect professional manager well in the downward cycle.

Thus, real estate enterprise should cancel funding leverage in the downward cycle of the real estate industry. Presently, the real estate industry has a downturn with continuous regulation. The following problems occur^①: Follow-up investor loses the principal and cannot gain dividends; funding leverage puts great stress on partial repayment of principal and interest and follow-up investor is heavily affected. Under such circumstances, management will doubt the role of follow-up investment system and employee will resist it.

^① Source: *10 questions in the New Year: 2020 "faster" operation*. SOHU.COM.
https://www.sohu.com/a/363609973_608107

6.3 Summary

A consensus is not reached on leverage and bottoming and leverage ratio of the real estate industry is often 2-4. To enhance real estate enterprise's risk resistance and better protect follow-up investor's rights and interests, bottoming mechanism should be implemented under the following rules.

1. In the upward cycle of the real estate market, funding leverage has a good effect, but leverage ratio should not be too high.

2. In the downward cycle of the real estate market, it is necessary to implement bottoming system.

3. In the downward cycle of the real estate market, funding leverage should be lowered and even canceled to ease mandatory follow-up investor's burden and boost their confidence in company and project.

CHAPTER 7. Analysis of Follow-up Investment

System Implementation of A Company

7.1 Basic Introduction to A Company

7.1.1 Strategic Layout of A Company

A Company is based in Shanghai, specializing on the development and investment of real estate in the first-, second- and third-tier cities in China. The development projects cover a wide range of properties, like residence, business office and commercial complex.

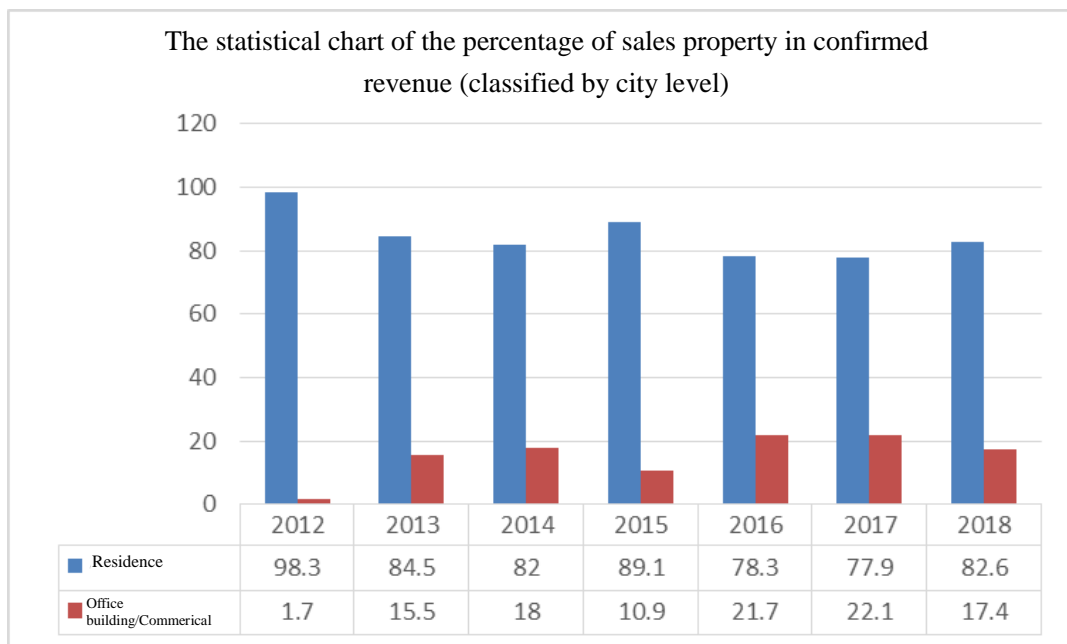


Fig. 7.1 The statistical chart of the percentage of sales property in confirmed revenue (classified by project)

Data source: Financial statements of A company

A Company focused on the first- and second-tier cities from the year of 2012 to 2015, especially on Shanghai and Beijing. It not only attached great

importance to well-performed second-tier cities, but selected some emerging and potential ones for small-scale development. Before 2015, A Company mainly centered on developing projects in Yangtze River Delta and the Bohai Rim region. Since then, it entered into Guangzhou market and received more land reserves in Midwest and South China. Since 2017, the company started to enter into the third-tier cities with greater development potential. By the end of 2018, A Company achieved national operation layout and gained a foothold in major first-, second- and third-tier cities in China, which should be given credit to its real estate projects in China covering 44 cities in four major regions, namely, Yangtze River Delta, the Bohai Rim region, Midwest and South China.

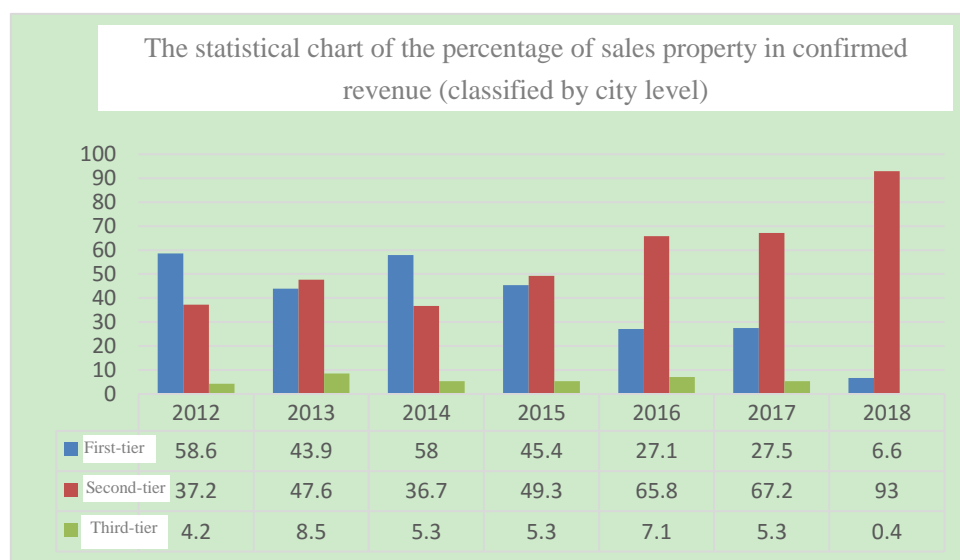


Fig. 7.2 The statistical chart of the percentage of sales property in confirmed revenue (classified by city level)

Data source: Financial statements of A company

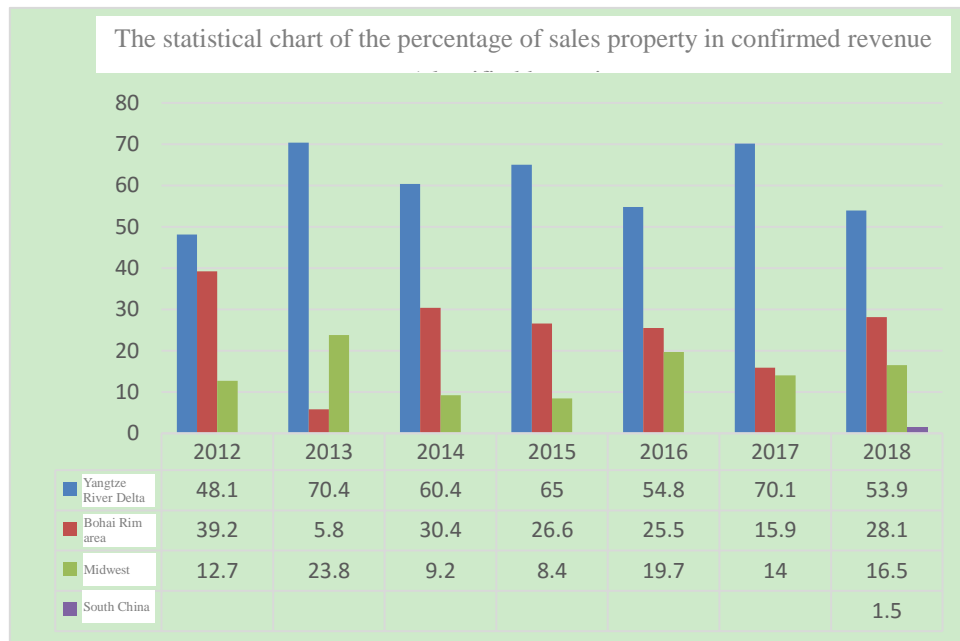


Fig. 7.3 The statistical chart of the percentage of sales property in confirmed revenue (classified by region)

Data source: Financial statements of A company

7.1.2 Overall Development Strategy of A Company

A company began to establish its five-year strategic planning for the overall development since 2013.

7.1.2.1 The first five-year strategic planning (2013-2016)

Based in Shanghai, the company expanded its business to 31 cities, turning the layout from regions to the whole country. Its contract sales amount also achieved exponentially growth in 2016. The main development goal in this phase focused on covering more regions and expanding sale scale.

When developing projects in 2012, 2013 and 2014, A Company cautiously focused on the first- and second-tier cities in China with great population base, large market capacity and consistent inflow of population

and funds. Moreover, the company optimized the existing three types of regional layouts, utilized pools of resources to make businesses in existing cities larger and stronger as well as improved scale effects and operational benefits. It aimed at satisfying end-user requirements, mainly referring to small and medium dwelling-size apartment with rigid demand and sales-type office building.

During 2015 and 2016, when discovering that upgrading residence had greater revenue potential, A Company actively acquired projects which were set in advantageous areas and suitable for developing upgrading products in the first-tier and premium second-tier cities. Furthermore, the land market in hot first- and second-tier cities were avoided and those second-tier cities with the land price not yet recovered became the major land-purchasing destination. The company specialized in selecting and acquiring valuable lands in these cities.^①

Since 2016, A Company had begun to develop and sale its high-end residence and gradually received recognition by virtue of elaborate decoration standard, environmentally-protection and energy-saving product technology and elegant brand image.

Viewing from the actual perspective, due to the effects caused by national expansion, the proportion of sales revenue received in the first-tier

^①Source: *Ranking of China's urban development potential in 2019*. China Financial Online. <https://baijiahao.baidu.com/s?id=1632606080430000798&wfr=spider&for=pc>

cities consistently reduced, while the revenue in the second-tier cities continuously increased in the whole and achieved the soar growth in 2018. The proportion of sales revenue in the third-tier cities remained relatively stable, while receiving a sharp decrease in 2018 due to the market factors. For the region distribution, since land reserves in Midwest and South China started to increase from 2015, the company's sales amount gained a growth in these areas, yet the areas with the greatest sales revenue remained to be Yangtze River Delta and Bohai Rim region.

7.1.2.2 The second five-year strategic planning (2017-2021)

During this period, A Company aims at completing in-depth layout for national strategy and developing to be the truly national real estate brand enterprise. Moreover, it is planning to implement the strategy of One Main Body and Two wings, namely, consistently developing the major business for real estate, while integrating it with Real Estate + and property financialization.

(1) Real Estate + strategy

Since 2016, A Company began to carry out Real Estate + business strategy, which means to make investment in new businesses related to primary real estate business. Real Estate + business has been working synergistically with core property development or investment businesses in A Company through providing services for A Company. Besides, A Company

can also expand its businesses to the third party not serving as the A Company customer, so as to make Real Estate + business achieve rapidly growth. Such a strategic investment not only displays return potential, but efficiently enhance the competitiveness of core businesses in A Company.

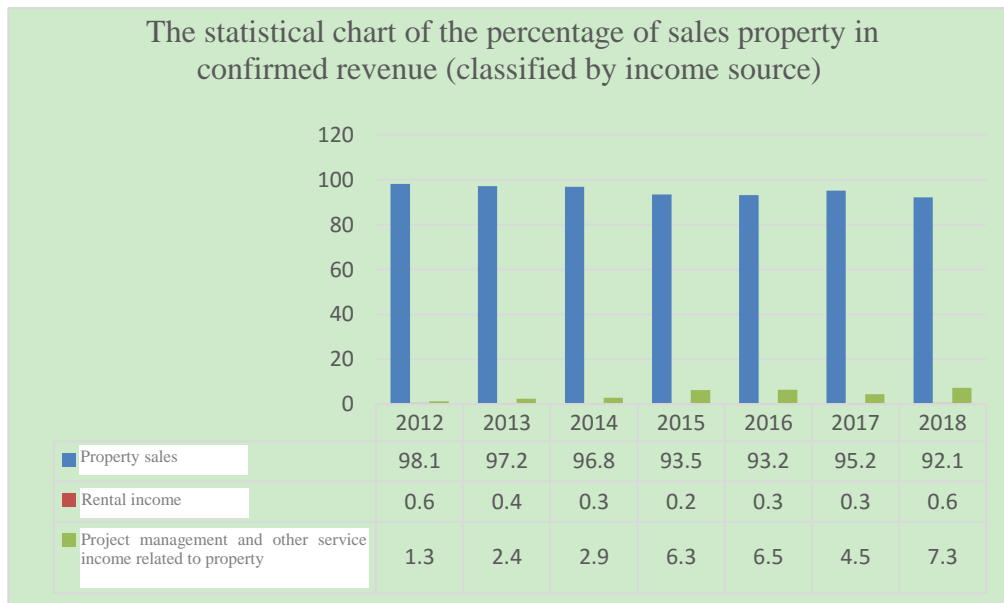


Fig. 7.4 The statistical chart of the percentage of sales property in confirmed revenue (classified by income source)

Data source: Financial statements of A company

Viewing from this statistic chart, the overall sales residence project has reduced, while office building and commercial property projects has gradually increased during these seven years. From the revenue source, though the proportion of property sales revenue remained the largest in gross revenue, that of other related service revenue nearly increased year by year, while rental income has no remarkable change and its proportion in gross revenue represents the smallest.

(2) Property financialization strategy

In 2017 and 2018, small and medium-sized developer were negatively affected by the forcefully regulation and control of real estate and current funds strain, while large developers were less influenced by virtue of the competitive advantages in financing channel and anti-risk capability. Market integration and centralization were further accelerated, providing benefits for large developers.

The land resources of A Company, covering 60 cities in different regions, were efficiently diversified thanks to its previous active reserves. Beside the traditionally significant first- and second-tier cities, more and more third-tier and other cities with diversified real estate demand and policy cycle has been covered. The company was intended to make defense during current tough real estate environment, and display appreciation potential when real estate policy turns good in the future. Thus, A Company continued to expand regional coverage, making businesses distributed to cities with different tire, in order to improve the penetration percentage of different regions and provinces, expand company scale and cement its market position.

7.1.3 Effect of Follow-up Investment System on Strategic Development of A Company

Based on the national expansion strategy, A Company has implemented follow-up investment system since July 2014. The following chart significantly indicates that A Company achieved rapid growth after carrying

out follow-up investment system in 2014. It turned from a regional real estate development enterprise into a leading national one, and entered into Top 20 national real estate enterprises due to its increasing annual sales amount (full aperture).

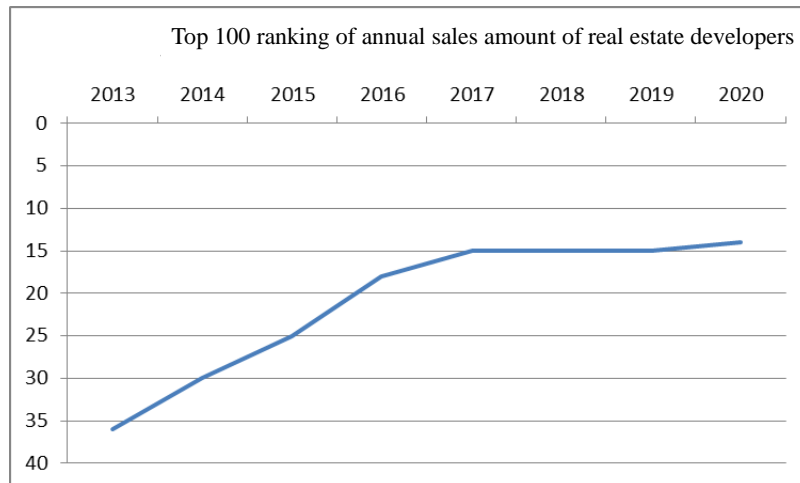


Fig. 7.5 Top 100 ranking of annual sales amount of real estate developers
Data source: CRIC Research Center

Why follow-up investment system should be integrated with the company's development strategy?

7.1.3.1 Risk Control of Project and Balance of High Efficiency Decision

During the phase of regional expansion, the gross projects invested and developed by the company were relatively fewer. Thus, all central-authority decision mechanism were able to guarantee the risk control for projects, while not causing efficiency problem. However, when the company begins to expand in a large scale and projects needed to make decision significantly increase, it is infeasible to completely rely on such a mechanism due to two

reasons. First, the decision-making speed will be lowered, thus losing business opportunities. Second, the investment committee members are not necessarily familiar with every project needed to make decision, so risk factors still exist in this procedure. Follow-up investment system can combine team and project together, which turns the team to be the direct stakeholder to some extent. Therefore, such an approach not only can control risks, but enhance the efficiency.

7.1.3.2 Adaptable to Amoeba Management Mode (Project Organization Structure Model)

Under the organizational structure established by A Company, staff in different positions (including function) required by independent team are allocated to each project. Every individual project manager should directly report to the general manager, transfer directives to every team member and lead the working direction for the whole team. Project staff can freely deploy and utilize project resources by the authorization of the manager. Various group functions just make surveillance and guidance due to the temporary and independent nature of the projects. The authorized project manager of the legal representative should assume the contract legal responsibility and duty of the whole project.

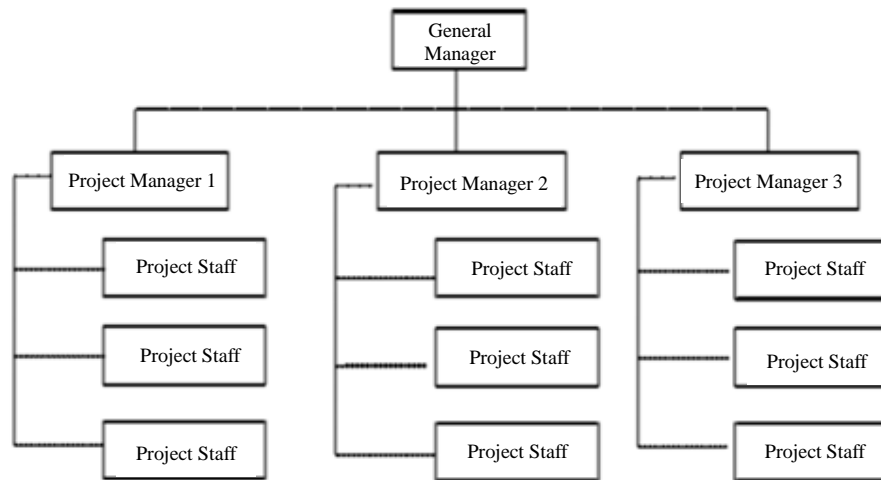


Fig. 7.6 Project type organization structure

Fortunately, these problems can be greatly solved through follow-up investment system, since project interest and its success or failure are directly tied to the team.

The advantages of this model are evidenced by strong and flexible teamwork, less internal conflicts, lower internal communication cost, higher business efficiency and centralized and practical authority. Yet, since each project needs to allocate corresponding function player, the whole structure seems relatively overstaffed and the cost control is difficult to be standardized. Furthermore, projects are hard to be monitored by the enterprise group, because different projects adhere to different standards, guidance is overlooked in project implementation, project accountability has not been established and the project manager possesses two much authorities.

7.1.3.3 Well-matched with Three-level Management Mode “Large Platform and Small Group Project Cluster” of the Group

A Company expects that the sales amount will hit 300 billion in 2021, so it needs to design a high-efficient organizational structure to make scale and efficiency balanced. The group management mode of A Company is that enhancing efficiency through large platform and small group project cluster, promoting businesses through incentive system and making shaping by three-level mode. Such a three-level mode and follow-up investment system will keep the balance among these items.

Under the organizational structure of three-level model, the group headquarter will pay little attention to business control, while focusing more on strategic and financial control. In particular, the group will develop to be a platform for strategy, resource, capital, investment information and expertise so as to provide strong back support for small groups and first-line projects. Small groups, namely regional business management department, will be supported and serviced by the regional head office to develop the projects. As the fundamental operating unit, project acts as the revenue center of the whole group.

In the next five years, A Company will implement organizational restructure. In particular, the business will be put forward, operation will be downstream and first-line business will take major responsibilities. By doing

so, its operational costs will be significantly reduced and the efficiency will be greatly improved.

7.1.3.4 Improvement of Dual 3D Incentive Mechanism

During the rapid development history, A Company has been focusing on motivating staff's enthusiasm and encouraging staff to share their growth experience. Its incentive mechanism is composed of equity incentive initiative and project follow-up investment system, which conversely plays a positive-feedback effect on the growth of the company.

Since going public in 2012, A Company has launched five equity incentive initiatives. The number of shares being issued totally reached 502.4 million, accounting for 6.68% in current total equity. The weighted average issuing price is 1.62 HKD, which is much lower than current 4.3 HKD, marking remarkable incentive strength.

On the other hand, project follow-up investment system provides consistent motivation for the growth of A Company. This system was launched in July 2014, and the company aimed at developing the team of professional manager to be the one of business partner through the business partnership plan.

Follow-up investment system is divided into compulsive follow-up investment and voluntary follow-up investment. The former is implemented by senior management and direct project management team, the overall

subscription amount shall not exceed 5% of the whole project equity. A Company develops these staffs who have direct relation with project revenue to be company partners so as to motivate their sense of ownership. This is because real estate industry has gradually entered into a refinement era, and the project revenue and turnover depend greatly on the company's investment insight and its capabilities in foreign cooperation, financing, product manufacturing and the overall project operation. Yet, all these aspects significantly rely on the senior management and first-line project management team.

By the end of 2015, 22 projects have implemented follow-up investment, almost all covering the first- and second-tier cities on which A Company consistently focusing. Follow-up investment staff exceeded 800, nearly accounting for 30% of internal staff compilation. It nearly covered all function management, including group staff and all-level company staff in first-tier cities. The total subscription amount exceeded 500 million, accounting for about 3% in the overall project equity.

7.1.3.5 Guarantee for Three Management Objectives Focused on “High Turnover”

Fundamentally, the secret for real estate enterprises achieving rapid and healthy development is high turnover, which covers short development cycle, rapid cash turnover rate, defensive debt condition, balanced profitability and

more market shares. Only in this way can these enterprises stand out from other competitors. The nature of high turnover represents its result. In other words, enterprises should exert the organization and management capability to realize the management goal of high turnover guaranteed by follow-up investment system.

To achieve high turnover, there are three basic management goals being established. First, set up objectives and realize rapid turnover. Second, establish standards and strictly carry them out. Third, build systems and strong incentive initiatives.

Viewing from these three aspects, A Company established clear measures. For sales management ability, its sales management rate in real estate enterprises with the same level stands for a level above the average, among which the rate in the first half of 2017 got to 2.4%, ranking the fifth place, a relatively good level in the enterprises with the same level.

Thus, make research for the follow-up investment system and development history of A Company plays typical sample significance.

7.2 Design of Project Follow-up Investment System of A Company

7.2.1 Follow-up Investment System Construction Strategy under Amoeba Mode

The construction strategy of follow-up investment system and Amoeba operation mode targets two directions, namely, Amoeba ecological operation mode center and Amoeba new business expansion center.

Amoeba ecological operation mode center mainly takes charge of backstage mechanism research of Amoeba operation philosophy. The mechanism is divided into several parts, including the department of Amoeba downstream cycle and full-structure mechanism, Amoeba business accounting department (focusing on special review and operation accounting), Amoeba information platform and A Company Amoeba Research Institute (in charge of benchmarking foreign industry experts and making research for the operation philosophy system of A Company). The backstage research is scheduled as follows:

(1) Deepen monthly investment-phase disclosure and road show mechanism. Deeply study the construction of downstream cycle mechanism and strictly control the mechanism and systematic risks. Reinforce the risk control in the downstream cycle incentive mechanism, monthly investment-phase disclosure and road show mechanism, warn and reveal

project risks. Cooperate with audit and monitoring departments to make full-procedure review for the follow-up investment and achievement sharing, make credit and revenue risks controllable and achieve risk-free growth on scale and revenue.

(2) Establish full-structure and full-cycle incentive system, promote Amoeba full-structure layout. Make deep research on the investment logic and operation features of first- and second-tier cities. Increase extracting node of follow-up investment and achievement sharing. Make profound optimization on capital appropriation and project corporative promotion system. Thoroughly understand the internal business mode and logic of upstream and downstream industry chain and new business expansion. Make deep research on the commercial integration of industry and city and the new development mode of commercial real estate. Expand and acquire sector businesses by virtue of land-selecting advantage of A Company. Make plan for the mode of investment, financing, management and quit in the whole procedure of breakthrough new businesses. Research and develop corresponding incentive system and partner mechanism.

(3) Establish medium and long-term incentive mode with diversified levels under the third-class structure. Make research on medium and long-term incentive mode of regional and holding group on the basis of that of original staff follow-up investment. For holding group, listed options shall be made long-term incentive to ensure that stock-holding is efficiently achieved

in strategic planning, capital operation and listing. For regional group, the incentive point lies in realizing risk-free expansion and income growth. By promoting option partner pilots in special regional groups, the actual stock-holding by staff should be further consolidated, all staff should jointly assume the risks and make interests sharing and the goal of first-line authority should be strengthened.

(4) Upgrade Amoeba ecological information platform. Establish three information platform systems supported by Amoeba, namely, staff follow-up investment platform, publicity and road show platform for achievement sharing and Amoeba internal transaction platform. Make all staff receive payments corresponding to their work performance by virtue of the public, fair and just information guarantee mechanism. Thus, companies are able to reward or punish those who really deserve in order to motivate their creativity and improve follow-up investment project revenues.

7.2.2 Project Scope and Organization Form

Staff representatives of follow-up investment of A Company co-establish a limited partner enterprise with limited liability company. These staff sign Entrusted Investment Agreement with the company, and then make indirect investment and gain profits from follow-up investment project. The partner enterprise should withhold taxes the staff requiring paying to tax authorities. A Company and the limited partner enterprise jointly hold the stocks of regional

platform companies and project companies where the platform company becomes an actual stockholder. Follow-up investment staff indirectly enjoy the equity profit right of follow-up investment project, but should not intervene normal operating decision and enjoy voting and other rights. ^① As is shown in Fig. 7.6

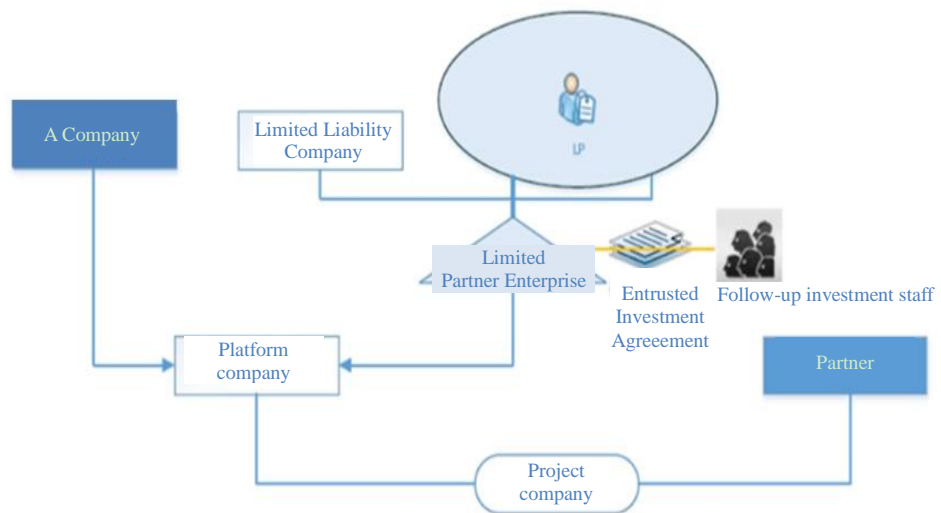


Fig. 7.7 Project scope and organization form

7.2.3 Participant and Quota Distribution

The following organizations and individuals can freely select new-acquired projects for follow-up investment companies, including headquarter management, project management team, all new-acquired projects in compulsory follow-up investment, other formal employees subordinated to the business department of follow-up investment projects as well as official staff working in corresponding headquarter department.

^① Source: *Is it better for crowdfunding stockholding platform of startups to register into a limited company or limited partner enterprise?* Zhihu. <https://www.zhihu.com/question/37358016>

7.1 indicates the allocation form of project follow-up investment staff and quota.

Table 7.1 The allocation form of project follow-up investment staff and quota

No.	Follow-up investment type	Follow-up investment staff		Directed upper limit of total amounts	Individual quota		Lever
					Lower limit	Upper limit	
1	Compulsory	Group	Group management and center director	20%	50,000	200,000	1:4
			Department director, director of investment area		25,000	100,000	
		Regional group/ Business department /Municipal company	Regional group/Business department/Director of municipal company subordinated to the group, the first director of follow-up investment project	70%	500,000	2 million	
			Director of municipal company not subordinated to the group		250,000	1 million	
			Management staff, director of marketing and investment function, PMO staff of follow-up investment project (including municipal company/district)		100,000	400,000	
			Function director (except marketing and investment) (including municipal company/district)		50,000	200,000	

			Engineers providing independent services for the project		25,000	100,000	
2	Optional	Business department	Other official staff	10%	20,000	100,000	None
		Group	Official headquarter staff				
Note	<p>1) Group management and center director consist of executive president with 9 or above level, assistant executive president, vice president, president assistant, directors of various centers and directors of legal risk control department and audit and supervision compliance department.</p> <p>2) Department director and director of investment area refer to directors with 8 or above level, except leaders taking charge of professional business module of some functions. Director of investment area includes M&A group which only makes follow-up investment in M&A projects and participating projects. The quota allocated to the group is the same as director of investment area. If you want to add or delete staff in the list, you need to submit the application to the follow-up investment committee for making decision and approval.</p> <p>3) Management staff and the first directors of marketing and investment departments should be confirmed according to the documents issued by HR and reviewed and approved by the group HR. If management staff is also the first department director, then the compulsory investment will be implemented based on the quota of the management staff, not designate others.</p>						

7.2.4 Return Mechanism and Profit-Sharing Mechanism

No matter overall project development or development by stages, funds should be allocated according to the order of debt > principal > interest > profit and the principle of achieving the same proportion of follow-up investment staff and major shareholders.

7.2.4.1 Return Mechanism

When the project operating cash flow returns to positive state and operating expenditures in the next 6 months are reserved, the project company should return 50% principal to follow-up investment company within 30 days.

When the investment funds of shareholders are withdrawn, the project company should return 75% principal to follow-up investment company within 30 days. When self-funds receive balance, the project company shall return 100% principal to follow-up investment company within 30 days.

7.2.4.2 Profit Sharing Mechanism

If there are positive operating cash flow and net profits and 90% selling rate, then pre-dividend can be implemented. Dividends should be given on the basis of 60% estimated project revenues. When making project settlement, the dividends should be given according to project income rate.

When annual yield of project reaches to 0%-12% during settlement, follow-up investment participants will receive dividends based on annual yield of project. When annual yield of project reaches to 12%-18% during settlement, follow-up investment participants will receive dividends which are 1.2 times of annual yield of project. When annual yield of project reaches to 18%-25% during settlement, follow-up investment participants will receive dividends which are 1.5 times of annual yield of project. When annual yield of project exceeds 25% during settlement, follow-up investment participants will receive dividends which are 1.8 times of annual yield of project.

When annual yield of project reaches to -12%-0% during settlement, follow-up investment participants will take losses based on annual yield of project. When annual yield of project reaches to -18%-12% during settlement,

follow-up investment participants will take losses which are 1.2 times of annual yield of project. When annual yield of project reaches to -25%-18% during settlement, follow-up investment participants will take losses which are 1.5 times of annual yield of project. When annual yield of project is lower than -25% during settlement, follow-up investment participants will take losses which are 1.8 times of annual yield of project. The following table 7.2 represents the establishment form of follow-up investment dividend standard under normal conditions.

Table 7.2 The establishment form of follow-up investment dividend standard under normal conditions

When $-12\% \leq \text{IRR} \leq 12\%$	Yield of follow-up investor=Annual yield of project
When $12\% < \text{IRR} \leq 18\%$	Yield of follow-up investor=Annual yield of project $\times 1.2$
When $18\% < \text{IRR} \leq 25\%$	Yield of follow-up investor=Annual yield of project $\times 1.5$
When $25\% < \text{IRR}$	Yield of follow-up investor=Annual yield of project $\times 1.8$
When $-18\% \leq \text{IRR} < -12\%$	Yield of follow-up investor=Annual yield of project $\times 1.2$
When $-25\% \leq \text{IRR} < -18\%$	Yield of follow-up investor=Annual yield of project $\times 1.5$
When $\text{IRR} < -25\%$	Yield of follow-up investor=Annual yield of project $\times 1.8$

7.2.5 Withdrawal Mechanism

Principal and profit are both paid to platform company by project company, and then the platform company makes them paid to limited partner enterprise. If follow-up investment staff make resignation during work period, the follow-up investment principal will be considered on-duty and the funds will be allocated based on the principal-returning and dividend agreement of

follow-up investment system. (enjoy profits, take losses). If the staff are transferred or retire, the follow-up investment project of these staff transferring from property section to real estate + section will be managed like on-duty staff.

7.3 Implementation Effect Analysis of Follow-up Investment System of A Company

7.3.1 Expected Effect Analysis

Financial analysis is indispensable in the implementation effect analysis of follow-up investment system of A Company. Financial statement is not only the most direct and efficient way of analyzing and evaluating an enterprise, but the information carrier of enterprise financial condition and operating result. All operating management actions will be reflected in the statement. Make systematic analysis for the financial data of A Company and compare it with the whole industry. By doing so, it is able to make objective evaluation about the implementation effect of follow-up investment system.

Indicator analysis is made for evaluating the different effects before and after implementing follow-up investment system by A Company, mainly focusing on four aspects. We hope to make a conclusion that follow-up investment system has more specific and practical effect on A Company.

Table 7.3 The analysis table of evaluation indicators for the implementation effect of follow-up investment system

Real estate development schedule	Strategic goal	Evaluation indicator	Indicator subdivision
Investment and decision phase	Improve the efficiency of investment and decision	Growth in land reserve amount	Number of expanded cities
			Growth rate of land reserve
Development and marketing phase	Enhance turnover rate	Development cycle of real estate	Receivables turnover rate
			Stock turnover rate
			Current ratio/Quick ratio
	Uplift industry ranking	Industry occupancy	Turnover rate of total assets
			Industry occupancy
			Growth rate of sales amount
Completion phase	Improve residence quality	Times of major disputes	Growth rate of sales area
			Brand value
Business development	Enhance competitiveness	Repayment capability	Sales gross margin /Net margin
			Profitability
			Total assets/Net assets yield
		Development capability	Liability on asset ratio
			Interest coverage ratio
			Growth rate of operating income
Completion phase	Improve residence quality	Times of major disputes	Growth rate of operating profits
			Growth rate of total assets

7.3.2 Investment Decision Stage

After implementing follow-up investment system, the land reserve of A Company began to grow rapidly since 2015 and its city coverage and project

number also achieved significant expansion. Besides, the company mainly employs joint ventures strategy with regard to land acquiring and more frequently takes land together with joint-operating enterprise. By doing so, it is expected to scatter financial pressure, realize cooperation and win-win and expand company scale.

In 2018, the growth rate of land reserve of A Company went through a sharp decrease due to external factors. Since the government established stricter regulation measures for real estate and the financing environment turned tough, land transaction price showed significant adjustment. Thus, A Company started to cautiously take land during the year to avoid reclaiming land at a high cost.

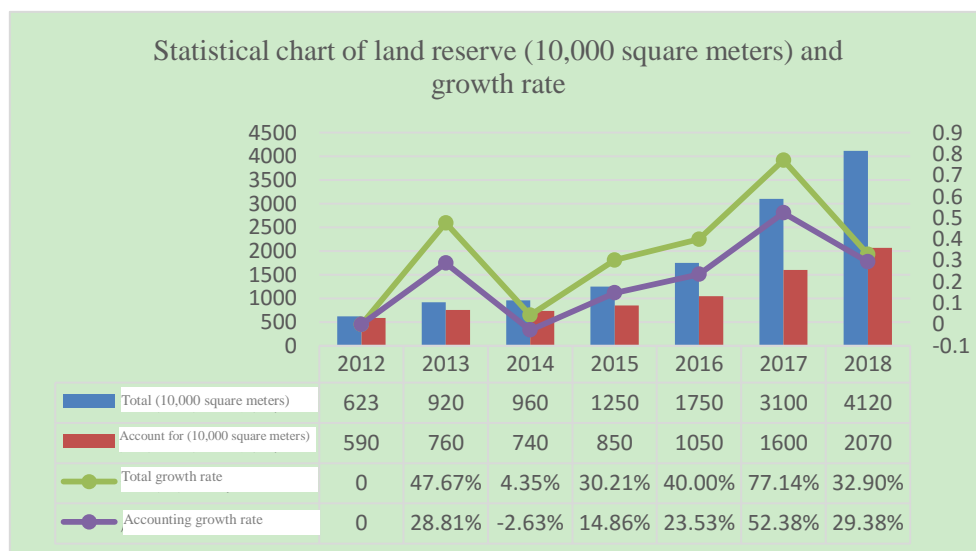


Fig. 7.8 Statistical chart of land reserve (10,000 square meters) and growth rate
Data source: Financial statements of A company

The statistical chart of city distribution indicates that A company began to accelerate national layout since 2015, because this also acted as a coping strategy for

responding to frequently changing policy. Moreover, its project number has rapidly increased and realized the goal of grabbing market and expand scale.

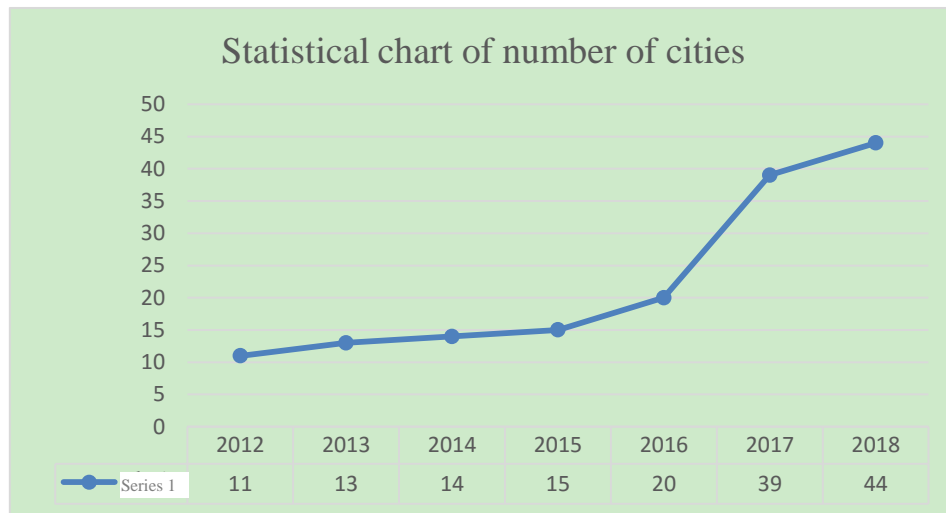


Fig. 7.9 Statistical chart of number of cities

Data source: Financial statements of A company

7.3.3 Development and Sales Stage

7.3.3.1 Improvement of Turnover Rate

In the period of development and sales, high turnover mainly reflects on several key indicators, including receivables turnover rate, stock turnover rate, turnover rate of total assets and current ratio/quick ratio.

(1) Receivables turnover rate

Viewing from an absolute point, both receivables and business income of A company gained growth from 2012 to 2018. After 2015, the growth rate of business income began to exceed that of average receivables.

Fig. 7.10 shows that receivables turnover rate of A company had

gradually decreased from 2012 to 2015. However, after implementing follow-up investment system since 2015, the turnover rate had rapidly improved and respectively reached to 60.63%, 146.67% and 102.67% in 2016, 2017 and 2018. Compared to the whole industry, receivables turnover rate decreased in most of time, except the growth in 2015 and 2016.

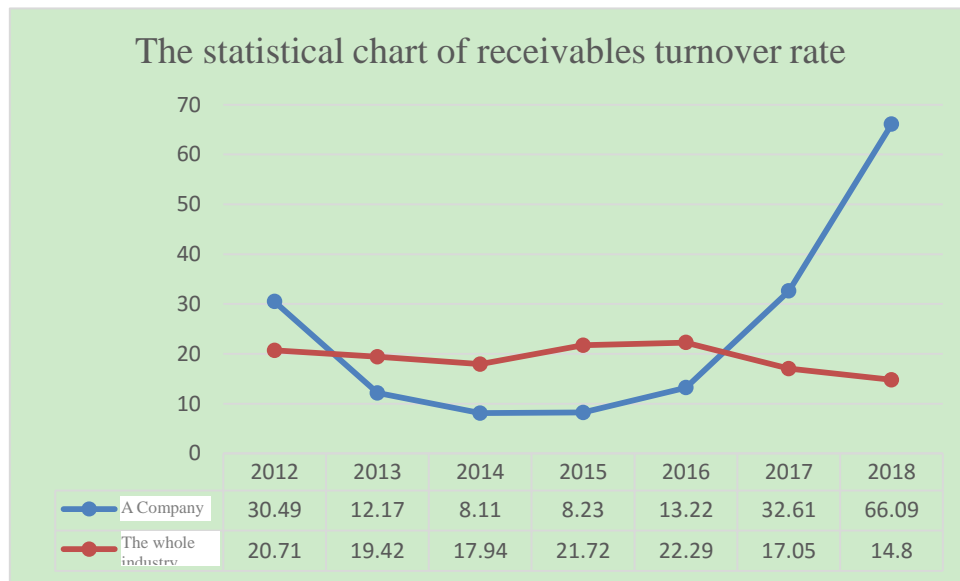


Fig. 7.10 The statistical chart of receivables turnover rate

Data source: Financial statements of A company, Chinese real estate yearbook

(2) Stock turnover rate

Stock turnover rate of A company has significantly fluctuated during these ten years. It gradually increased in 2012, 2013 and 2014, and reached to the highest in 2017. After implementing follow-up investment system, the stock turnover rate had decreased consistently. Despite slight increase in 2017, it reduced to 0.46 in 2018, a number nearly equaling to 2012 and indicating the lowest value during these seven years. Even so, stock turnover rate of A

company is higher than the whole industry, which is above 64.29%.

The reason why stock turnover rate sharply increased in 2014 is that A company took less land during this year. While, the reason for significant decrease of stock turnover rate in 2018 is due to the greatly added stock value. Stock turnover rate is closely related to the frequency and quantity of investment and land-taking.

Stock turnover rate of the whole industry from 2012 to 2015 had been increasing, while decreasing in 2017 and 2018.

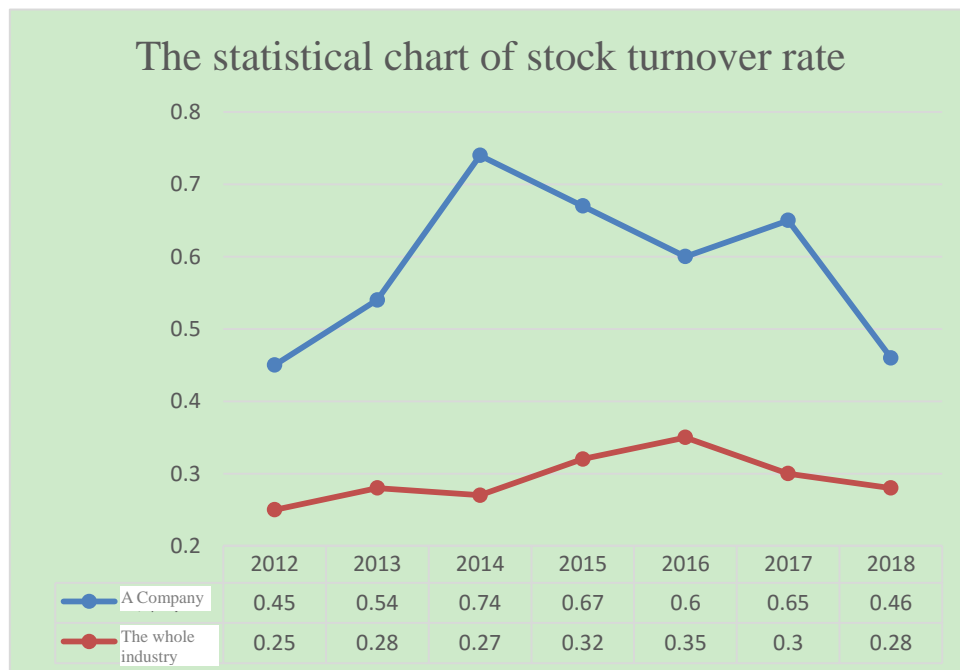


Fig. 7.11 The statistical chart of stock turnover rate

Data source: Financial statements of A company, Chinese real estate yearbook

(3) Current ratio/Quick ratio

The current ratio of A company went through an accelerated decrease from 2012 to 2014, while realizing significant growth rate of 20.1% in 2015,

yet reduced 12.22% since then. In the whole, the current ratio of A company reached an average of about 1.6 and had small fluctuation, except a sharp increase in 2015. The whole industry kept stable growth from 2012 to 2016, while decreasing in 2017 and 2018 with a percentage of 6.71% and 5.88%. The overall current ratio of A company remained stable in the context of industry downstream.

The quick ratio of A company remained in an increasing condition from 2012 to 2017, while having a decrease rate of 11.54% in 2018. The fluctuation range of the whole industry was relatively small.

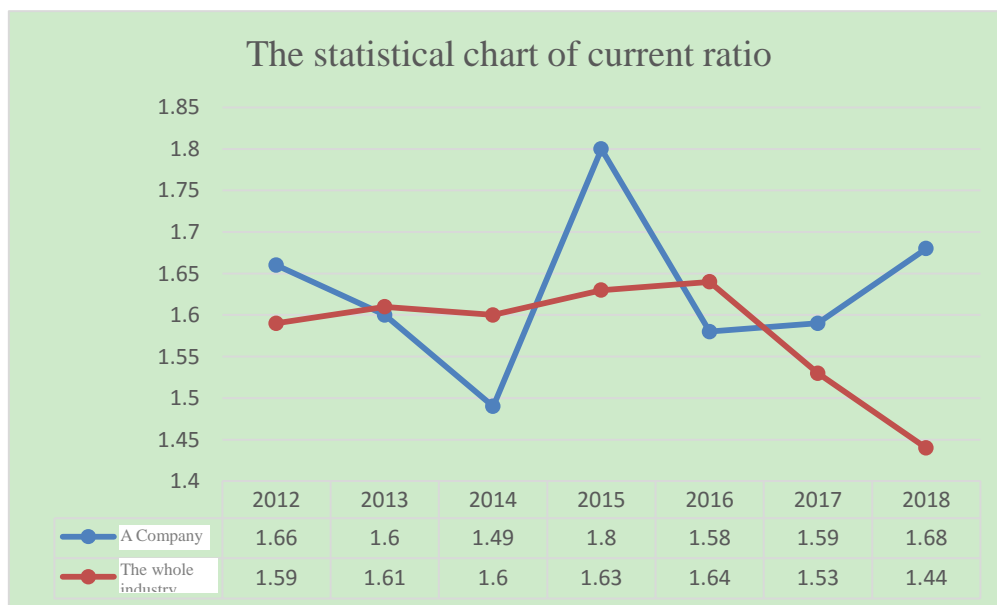


Fig. 7.12 The statistical chart of current ratio

Data source: Financial statements of A company, Chinese real estate yearbook

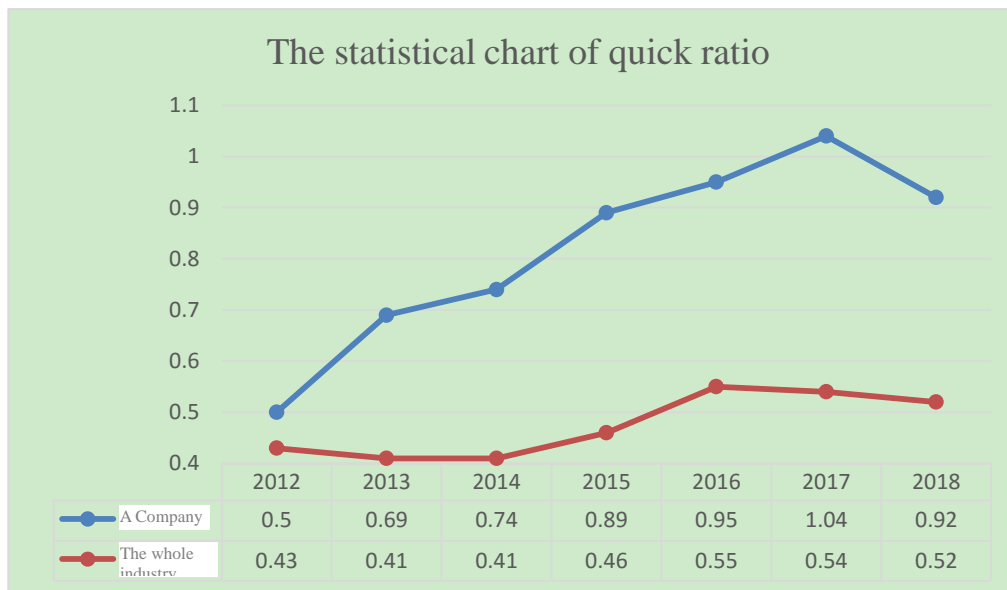


Fig. 7.13 The statistical chart of quick ratio

Data source: Financial statements of A company, Chinese real estate yearbook

The major reason for current ratio decreasing and quick ratio increase in 2013 and 2014 was that A company considered to take land cautiously due to frequent fluctuation of land market. Thus, stock decreased significantly. Viewing from absolute stock quantity, the company stock increased in 2013, but its growth rate reduced. In 2014, the absolute value of A Company stock even decreased, which is the only decreasing during seven years.

In 2015, under the guidance of government incentive policy, Chinese real estate market began to warm up. At the early recovery stage of real estate industry, A Company actively enlarged land reserve, grasped the opportunity of earning the most excellent reserved land, acquired plenty of lands at an attractive low cost and add sufficient available source of goods in the next two years. Thus, the current ratio has significantly improved.

In 2016 and 2017, A Company properly increased land reserve. In 2018, current ratio increased, while quick ratio reduced. This is because stock growth rate of A Company in the year reached to 115.81%. Its quick ratio has gradually improved year by year and the improvement range was higher than the whole industry, meaning that short-term debt repayment ability had been increasing.

(4) Turnover rate of total assets

Turnover rate of total assets of A Company reached to the highest 0.39 in 2014, and then showed a gradually decreasing trend and got to the lowest 0.22 in 2018. The company's decreasing trend after 2016 was close to the whole industry. The decreasing range in 2018 nearly got to 24%.

Turnover rate of total assets of A Company reached to the highest value in 2014, because the growth rate of total assets was lower than that of sales income due to less land taking. After 2014, with the increasing amount of land taking and stock, enterprises needed to make more financing, leading to consistent decreasing of turnover rate of total assets.

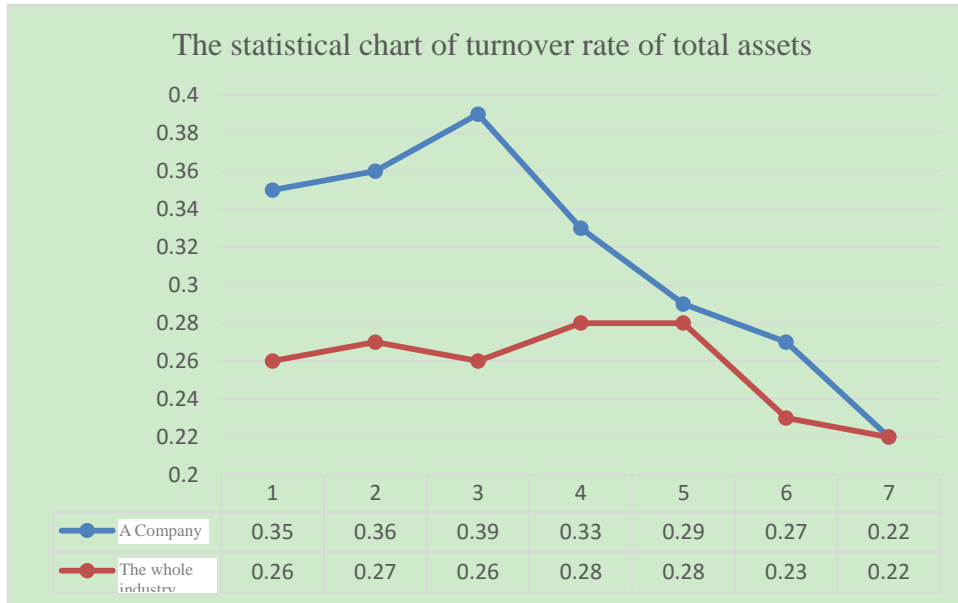


Fig. 7.14 The statistical chart of turnover rate of total assets
 Data source: Financial statements of A company, Chinese real estate yearbook

The above chart clearly indicates that the implementation of follow-up investment system plays a significant role in promoting rapid growth of enterprise and total assets. Yet, the system also causes some negative effects like the decreasing of turnover rate of total assets due to base expansion. There is a problem hard to be solved for the system, since its local and short-term features make it bring in negative effects on the macro business development after applying Amoeba management mode.

7.3.3.2 Improvement of Industry Ranking

(1) Industry occupancy

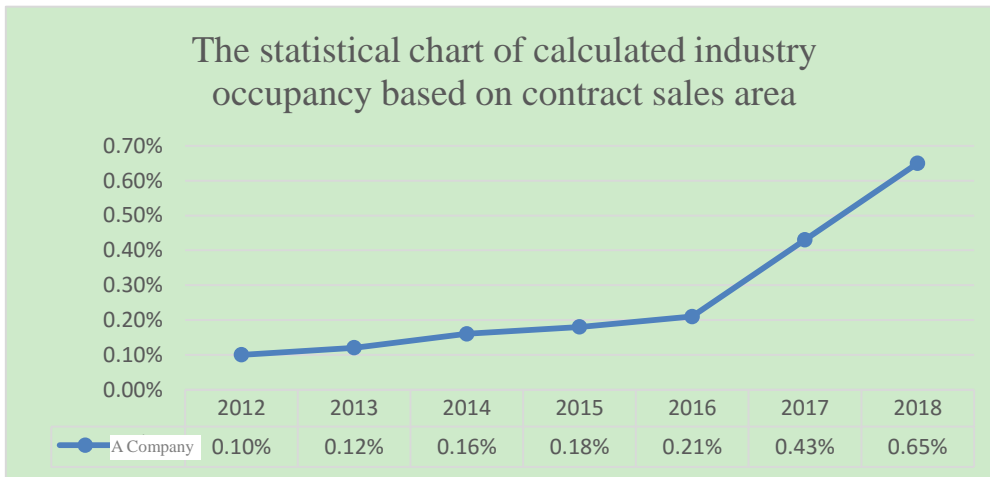


Fig. 7.15 The statistical chart of calculated industry occupancy based on contract sales area

Data source: Financial statements of A company, Chinese real estate yearbook

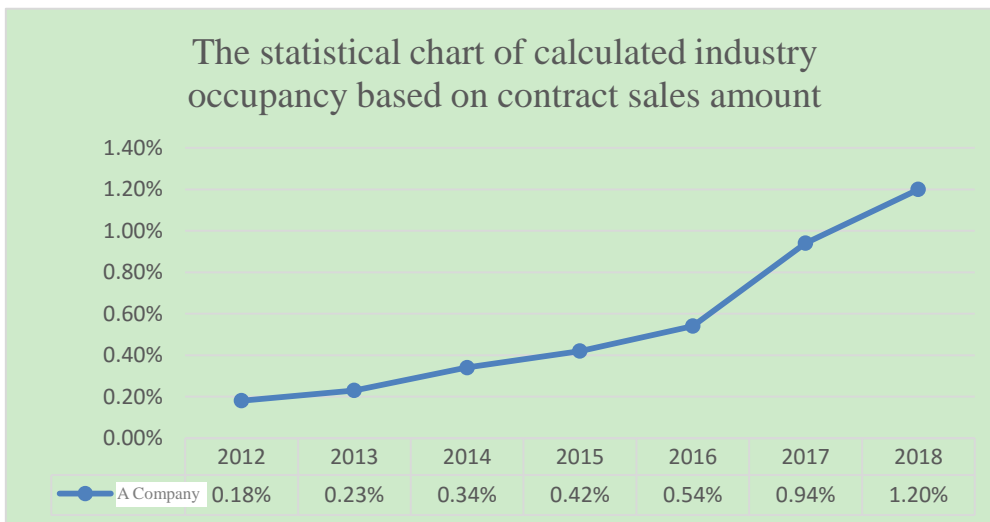


Fig. 7.16 The statistical chart of calculated industry occupancy based on contract sales amount

Data source: Financial statements of A company, Chinese real estate yearbook

After implementing follow-up investment system, A Company has achieved remarkable growth. Based on the calculation result of contract sales area, its industry occupancy remained a growth trend from 2012 to 2018, especially after 2016. Based on the calculation result of contract sales amount, its industry occupancy also showed a gradually increasing trend, while

achieving a growth rate of 74.07%, the largest growth range in 2017 (during these seven years) and the industry occupancy getting to 0.94%. Despite slower increasing in 2018, the growth range of 27.66% still reached to the highest value 1.2% during these seven years.

(2) Growth rate of sales area and sales amount

The building area of contract sales of A Company has continuously increased. The growth speed before 2015 slowed down, while accelerating after the year. In 2017, the growth range of building area of contract sales doubled up. Despite some decreasing in 2018, it was still higher than other years except 2017.

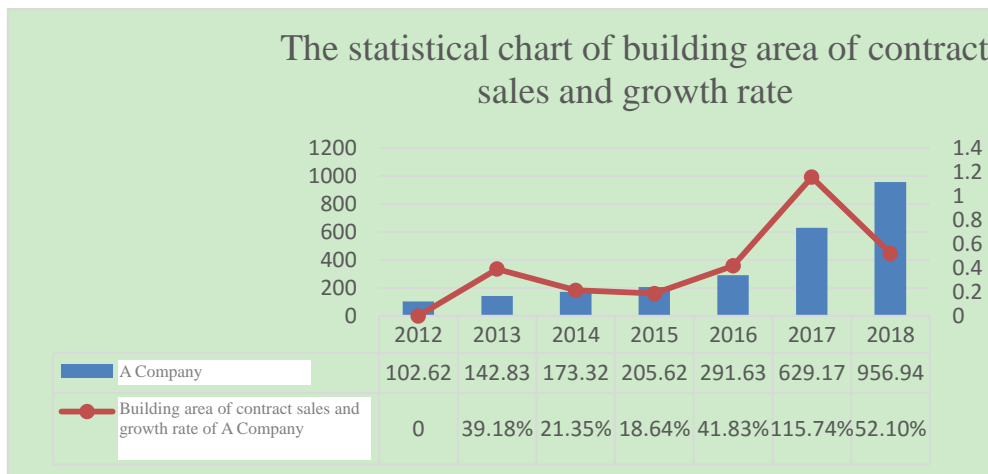


Fig. 7.17 The statistical chart of building area of contract sales and growth rate
Data source: Financial statements of A company, Chinese real estate yearbook

Meanwhile, contract sales amount of A Company had continuously increased from 2012 to 2018, and reached to the highest value of 152 million yuan in 2018. There was a remarkable growth rate after 2015 and the average reached to 72.61%, which was only 47.13% before 2015.

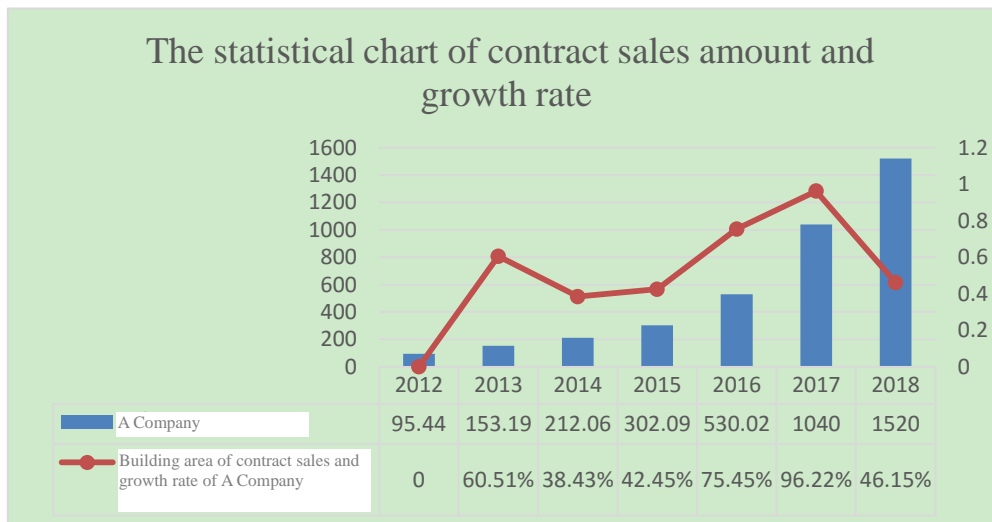


Fig. 7.18 The statistical chart of contract sales amount and growth rate
Data source: Financial statements of A company, Chinese real estate yearbook

7.3.4 Completion Stage

To reinforce the market expansion and improve profitability, A Company focuses on enhancing product ability and upgrading full-decoration residence product after implementing follow-up investment system. By doing so, it can receive support and execution force from project developers (possibly loss profitability in a short period) and reduce some risks caused in project delivery, like rights protection and check out. Such an approach also uplifts project brand value, premium ability and profitability from a long-term perspective.

In 2015, A Company established product R&D center focusing on standardized full-decoration residence. The center specializes in studying the application of various building and decoration materials, simulating dwelling size design and allocation and creating corresponding customer experience.

These researches not only can efficiently improve product ability of A Company, but provide future development layout.

In 2016, A Company jointly founded a research center with national renowned university in order to make researches on sustainable residence products with energy-saving, emission-reducing, environmental-protection features according to national urbanization progress.

In 2017, A Company carried out positive business transformation. New ideas like mobile Internet and big data were applied into product design, marketing and added-value customer service, aiming at providing better products, services and communities for customers.

According to the survey result provided by the third party invited by A Company annually, customer satisfaction degree of A Company had consistently improved during these seven years. Ranking list of Chinese real estate enterprise brand issued by China Real Estate Association indicates that, brand value of A Company began to significantly uplift since 2015 and entered into national Top 20.

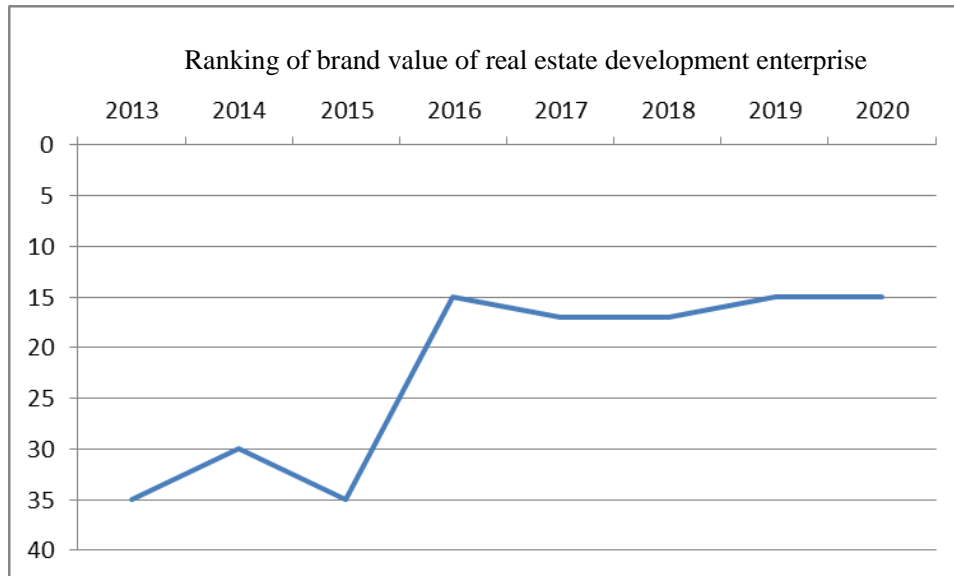


Fig. 7.19 Ranking of brand value of real estate development enterprise
Data source: China Real Estate Association

7.3.5 Enterprise Development

7.3.5.1 Profitability

(1) Gross profit margin

Gross profit margin of A Company showed a fluctuating trend from 2012 to 2018. It kept balanced in 2013 and 2014 and reached to the lowest point 22.73% in 2015. Yet, it began to increase since 2015 and got to 27.09% in 2017, the highest value during these seven years. It had a fall back in 2018 and nearly kept balanced with 2016.

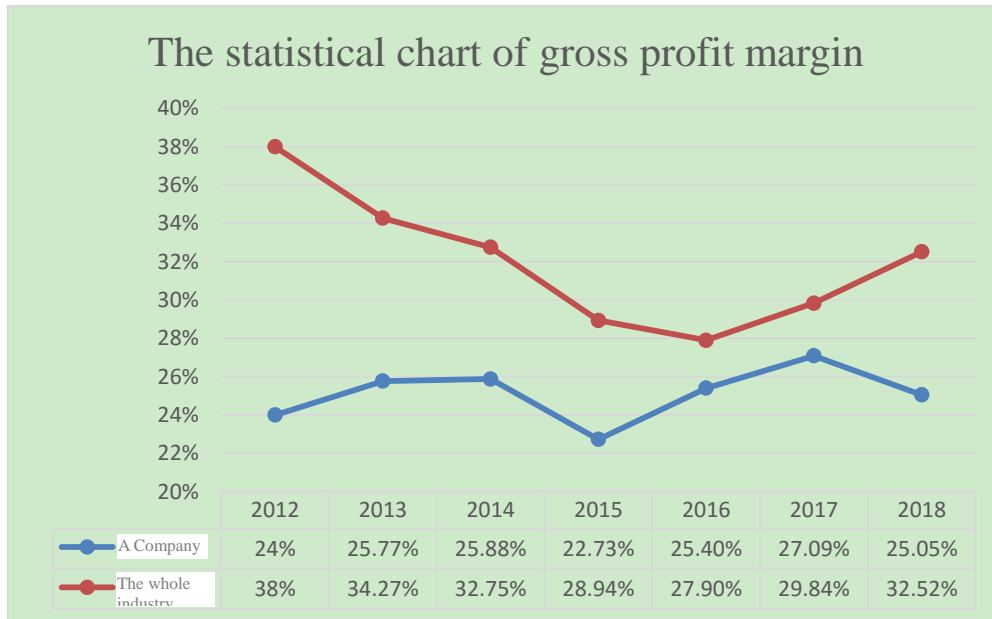


Fig. 7.20 The statistical chart of gross profit margin

Data source: Financial statements of A company, Chinese real estate yearbook

In 2013, gross profit margin of A Company improved for two reasons. First, the proportion of product project with higher gross profit margin in confirmed revenue increased. Second, newly-acquired project had greater profitability, higher sales price and more reasonable land price. In 2014, the company made efficient adjustment on its sales strategy by virtue of its policy sensitivity and keep its gross profit margin stable under a downstream market trend. In 2015, since the adjustment of house price in 2014 had negative effect on profit settlement in 2015, gross profit margin of A Company went through a larger decreasing with the whole industry. In 2016, A Company decided to adopt the land-buying principle that such an action should be cautiously made in a unreasonable market situation. Thus, its gross profit margin improved in the context of downstream industry environment. In 2017, the company made

efficient adjustment on sales and land-buying strategies, and paid more attention to scientific research and quality so as to uplift brand image and obtain more product premium. In 2018, the company made gross margin damaged during accounting treatment due to effects caused by several joint ventures. The report adjusted by internal staff showed that gross margin still received small and stable increasing.

From the perspective of overall company, gross profit margin was well below the whole industry level, which was directly related to project positioning developed by the company. It is noteworthy that its gross profit margin has continuously improved after implementing follow-up investment system since 2015.

(2) Net profit margin

Net profit margin of A Company showed a decreasing trend in 2013 and 2014 and reached to the lowest value of 12.35% in 2014, which was nearly consistent with the whole industry level. Yet, it had increased during the following three years in which the largest growth range of 35.75% fell into 2017. In 2018, the net profit margin slightly reduced. Compared to net profit margin of the whole industry, A Company consistently had a positive trend during these seven years.

Before implementing follow-up investment system, net profit margin of A Company showed a continuously decreasing trend. Yet, after that, the increasing proportion of management cost, financial cost and sales cost had

been curbed despite enlarged scale. Thus, the net profit margin rose again. Besides, lower-cost financing method applied by the company is also beneficial for creating such a result.

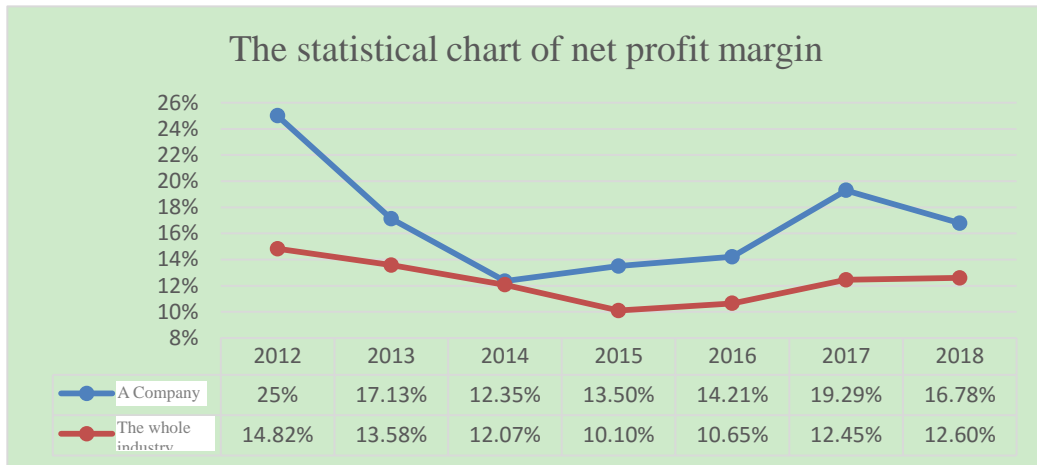


Fig. 7.21 The statistical chart of net profit margin

Data source: Financial statements of A company, Chinese real estate yearbook

(3) Return on Total Assets

Return on total assets of A Company showed a decreasing trend from 2012 to 2018 except 2017, and reached to the lowest point of 5.95% in 2018 which had a lower percentage of 52.44% than 2012. Yet, the decreasing range of return on total assets of A Company after 2015 was much lower than before. In 2017, the return on total assets rose again due to significant growth of net profits.

Viewing from the whole industry, return on total assets stands in an annually decreasing condition. It showed small increasing in 2016 and reached to the lowest level in 2018 (during these seven years). Return on total assets of A Company was significantly higher than the whole industry.

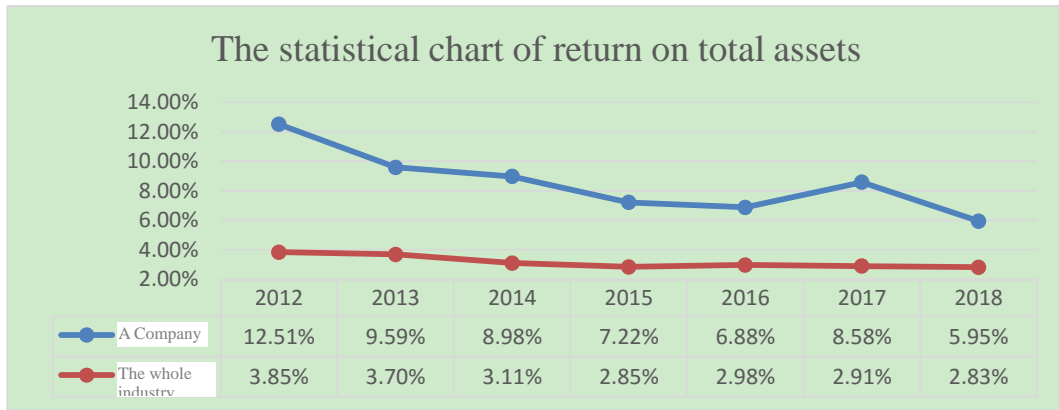


Fig. 7.22 The statistical chart of return on total assets

Data source: Financial statements of A company, Chinese real estate yearbook

(4) Return on net assets

Return on net assets of A Company showed a consistent decreasing trend from 2012 to 2015, and reached to the lowest point of 18.2% in 2015. Yet, it gradually rose after 2015 and showed a small fallback in 2018 with a decreasing range from 13.56% to 23.26%. Overall, return on net assets of A Company made some growth after 2015.

Viewing from the whole industry, return on net assets had no significant change. It was higher in 2012 and 2013 and significantly reduced in 2014 and 2015, while it began to gradually rise again since 2016, yet still lower than 2012 and 2013.

The trend of return on net assets stayed the same as return on total assets. In 2016, return on total assets decreased, while return on net assets had a growth. This was because debt in 2016 had a relatively larger growth.

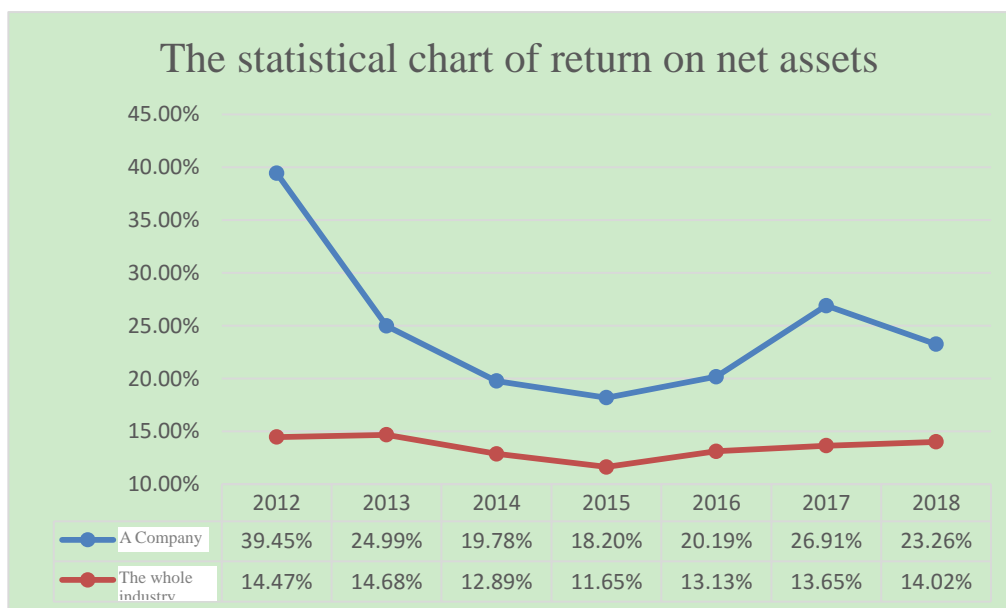


Fig. 7.23 The statistical chart of return on net assets

Data source: Financial statements of A company, Chinese real estate yearbook

The analysis for the above indicators shows that the year of 2015, the time of implementing follow-up investment system, marks a turning point for A Company profitability which respectively showed decreasing and increasing trend before and after 2015. Moreover, despite the gross margin of A Company which was annually lower than average industry level, other indicators reflecting profitability were all higher than it due to a lower proportion of management cost, financial cost and sales cost in sales amount. In 2017, the company received the best profitability.

7.3.5.2 Debt Paying Ability

(1) Debt asset ratio

Debt asset ratio is a key indicator for evaluating debt repayment ability of real estate developers. The debt asset ratio of A Company has consistently fluctuated in a small scale. Yet, after implementing follow-up investment system in 2015, the ratio was significantly higher than before. From 2012 to 2018, despite some fluctuations, the ratio of A Company had kept balanced with the whole industry.

The company's financial report indicates that both assets and debts of A Company gradually increased year by year. Debt asset ratio after 2015 was higher than before, because the growth rate of debt was faster than assets. Debt increasing was due to larger scale and asset amount required by the company.

This also suggests that follow-up investment system actually has no relation with enterprise debt repayment ability. Instead, it may lead to the reduction of such ability.

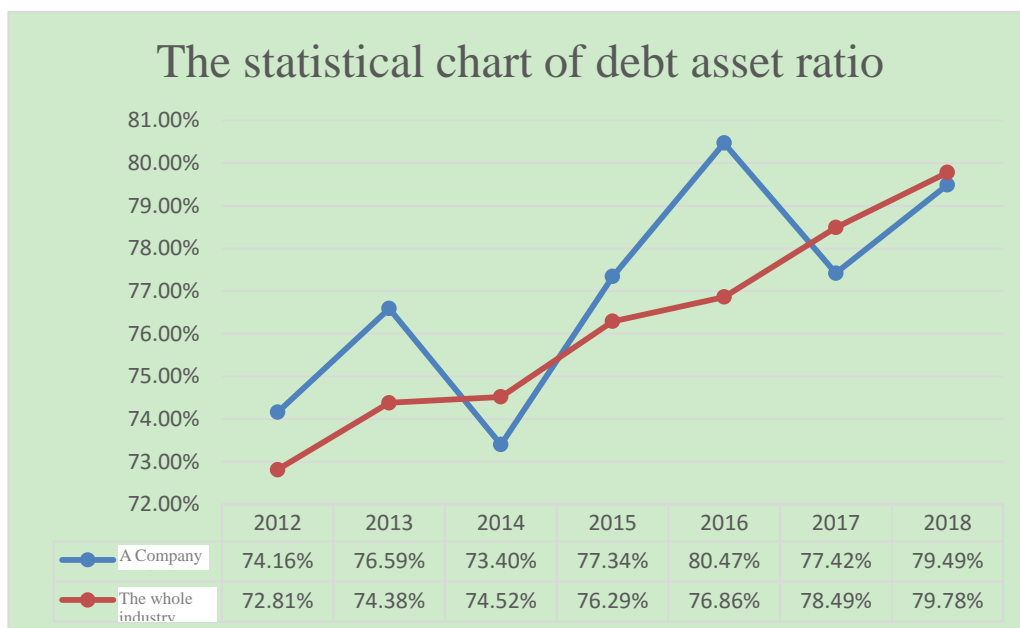


Fig. 7.24 The statistical chart of debt asset ratio

Data source: Financial statements of A company, Chinese real estate yearbook

(2) Interest coverage ratio

Interest coverage ratio of A Company in 2012 was far higher than the whole industry, while reducing to 74.78% to 16.78% in the same year. It stayed in a small fluctuation until 2016, which was nearly same as the average value of the whole industry. In 2017, the ratio gained significant growth again. Interest coverage ratio of A Company was far higher than the whole industry in 2017 and 2018.

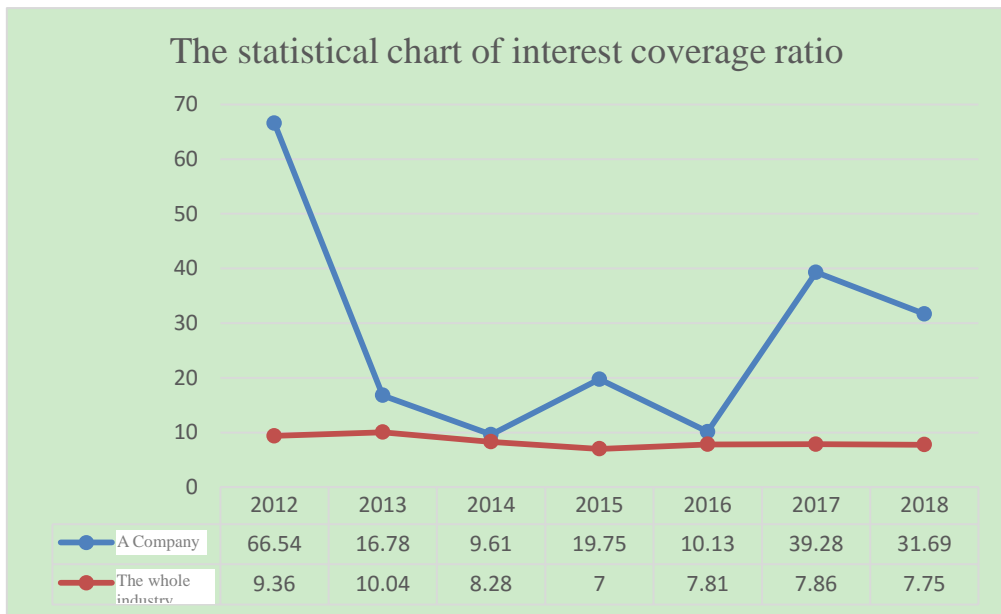


Fig. 7.25 The statistical chart of interest coverage ratio

Data source: Financial statements of A company, Chinese real estate yearbook

At the beginning of 2015, the financing cost of overseas capital of Chinese real estate developers showed a large fluctuation due to some macro reasons. Besides, the international capital market took a very cautious attitude toward the whole industry, leading to lower interest coverage ratio in the whole industry. A Company timely grasped market trend during the overseas economic downturn, successfully issued company bonds at a lost cost within Chinese territory, achieved lost-cost financing, penetrated into diversified financing markets at home and abroad and replace higher-cost debt with lower-interest financing. By doing so, its debt structure was optimized, paving a smooth road for future development. The interest coverage ratio of A Company, thus, realized a large increase in 2015.

In 2016, A Company increased larger bonds financing, leading to the reduction of interest coverage ratio. In contrast, the ratio in 2017 had a sharp increase due to the abovementioned low-cost financing and excellent sales condition as well as largely increasing profits.

Although this indicator has no direct relationship with follow-up investment system, it shows that improving enterprise development situation is beneficial for increasing the debt repayment ability. The debts of A Company after 2015 significantly increased than before. A Company took efforts to seek for solutions on reducing interest charges and increasing profits. Thus, despite the increasing debts from 2016 to 2018, the debt repayment ability of A Company was still higher compared to years before 2015.

7.3.5.3 Development Ability

(1) Growth rate of operation income

Operation income had been increasing year by year and the increasing range had a larger fluctuation, no matter A Company or the whole industry. Before 2015, growth rate of operation income of A Company slowed down, while accelerating growth after that. In 2018, its increasing range slightly reduced. Growth rate of operation income of the whole industry went through a sharp increase in 2015, while having small fluctuations during remaining years. Growth rate of operation income of A Company was largely above the level of the whole industry during these years except 2015 and 2016.

Growth rate of operation income of A Company showed an ultra-high value in 2012, because the company was a small-capacity one before 2012 and its scale expanded significantly after the year. Since then, the operation income stayed at a relatively high value, so it is nearly impossible to gain the growth rate in 2012. From 2013 to 2015, growth rate of operation income of A Company reduced due to volatile policy and market. Yet, the rate significantly rose again after implementing follow-up investment system in 2015.

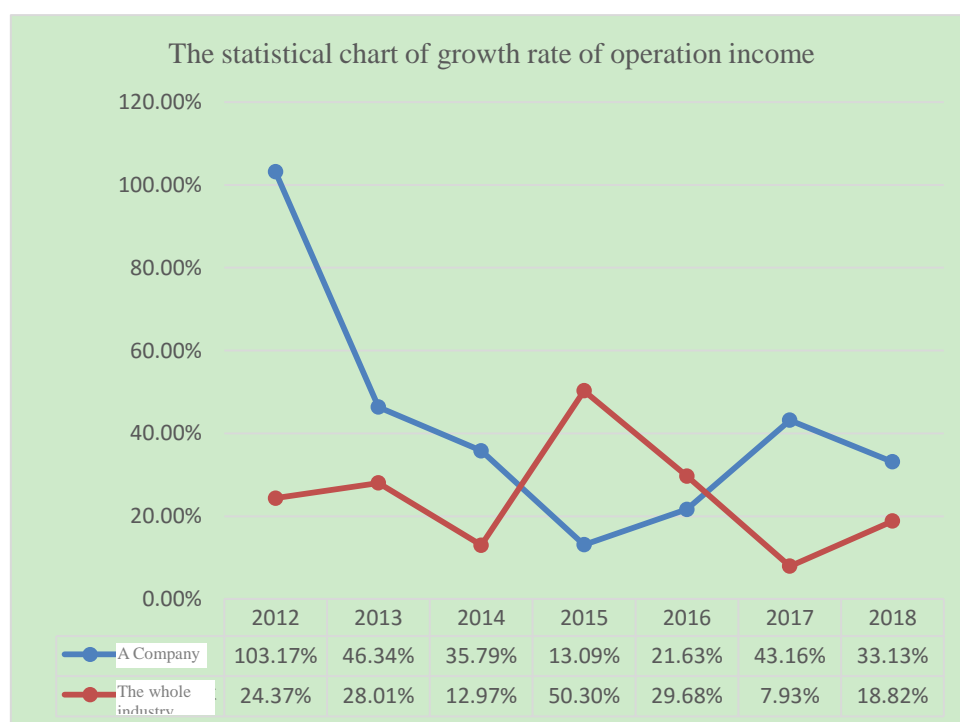


Fig. 7.26 The statistical chart of growth rate of operation income
Data source: Financial statements of A company, Chinese real estate yearbook

(2) Growth rate of operation revenue

Growth rate of operation revenue of A Company basically showed a positive trend, despite the only negative growth in 2015. The rate suggested a relatively large fluctuation after 2015. Operation revenue in the whole

industry had always increased during these seven years, among which the lowest rate only reached to 0.6% in 2014. The fluctuation of growth rate of operation revenue was relatively more stable than A Company.

In the first half of 2015, real estate market price had not yet completely recovered. A Company set up selling rate with a patience attitude. While in the second half of the year, real estate market was significantly warmed up. Thus, A Company had the confidence to launch new projects, leading to lower operation revenue than other years. Moreover, since the adjustment of house price in 2014 had negative effect on profit settlement in 2015, growth rate of operation revenue of A Company in 2015 displayed a negative number.

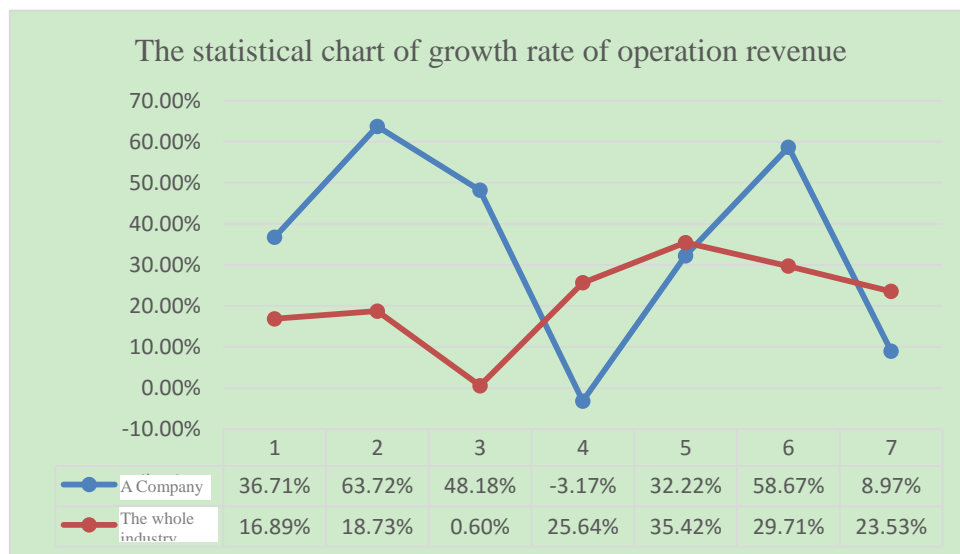


Fig. 7.27 The statistical chart of growth rate of operation revenue
Data source: Financial statements of A company, Chinese real estate yearbook

(3) Growth rate of total assets

Total assets of A Company and the whole industry achieved growth from 2012 to 2018. Growth rate of total assets of A Company had largest

fluctuation and kept a rising trend. Generally, since 2015, the rate was higher than before and far above the average industry level. Growth rate of total assets of the whole industry showed the most balanced trend, which reached to the lowest point of 15.73% in 2014 and gradually rose again after the year. The rate rose to the highest value of 27.43% in 2017, while going through a slight decreasing in 2018.

Total assets change of A Company was mainly influenced by stock in which land reserve plays the most important role. In 2014, A Company stock had a negative growth rate. Thus, in 2016, A Company began to slow down land-acquiring speed and select second- and third-tier cities with great profit potential to take land other than those traditional hot cities. By doing so, its growth rate of total assets reduced in 2016. In 2018, since total assets capacity had already reached a relatively high level in the previous year, the growth rate of total assets also reduced.

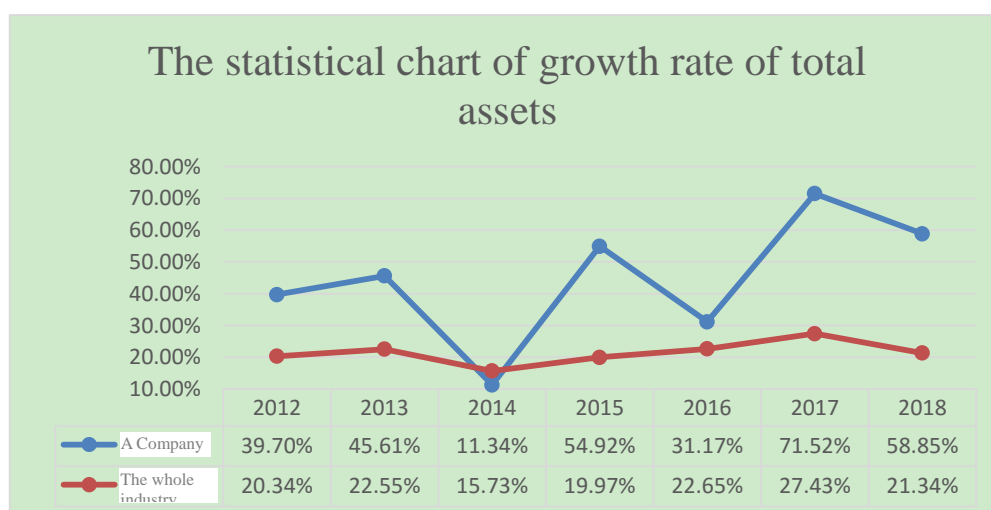


Fig. 7.28 The statistical chart of growth rate of total assets
Data source: Financial statements of A company, Chinese real estate yearbook

The above indicator analysis shows that the development ability of A Company was diversified before and after the year of 2015. Since this year acts as a turning point, the development ability indicators of A Company had great performance from 2016 to 2018. Such ability was stronger than the whole industry in most of years, despite the larger fluctuation of various indicators.

7.3.6 Implementation Effect Analysis and Summary of Follow-up Investment System of A Company

In summary, the year of 2015, the time of implementing follow-up investment system, marks a turning point for A Company. Although it employed high turnover strategy in 2012, its profitability had increased with the significant scale expansion since 2015. The debts of A Company significantly increased due to scale expansion and the implementation of high turnover strategy. Yet, it still remained a great debt repayment ability since it actively sought for solutions on reducing interest charges and financial risks.

Though A Company paid attention to high turnover, it not just focused on improving turnover indicators, but flexibly adjusting land-purchasing and selling strategies by virtue of its sensitivity on land market and real estate market. It aimed at balancing the relation between turnover and profit through such approaches. The development ability indicator of A Company also showed that it kept a good performance in a stricter external environment after

the year of 2015. Since then, under the background of intensified polarization and increasing market integration, A Company accelerated scale expansion and perfected own abilities to match with the high-speed expanding scale. The overall performance of A Company significantly outweighed the average industry level. All these should be credit to the comprehensive effect provided by implementing follow-up investment system.

7.4 Background of Follow-up Investment System of A Company

The follow-up investment system is closely related to high turnover development mode of Chinese real estate. Thus, the fundamental goal of implementing follow-up investment system is to achieve high turnover. Whether this action will success depends on two aspects: the reasonable and efficient system design; a management mode focusing on high turnover.

During the process of enhancing turnover and efficiency, it will naturally establish several different modes, including short-cycle mode with sales as the core, high turnover mode with the schedule and speed as evaluation goals and manufacturing mode with development point and product standardization. In particular, it means that rapidly taking land, going into operation and selling, and then taking land to make reproduction after earning funds.

Real estate always conforms to the standard applied by typical manufacturing industry, namely rapid product export. Real estate enterprises with high performance usually make national expansion and adhere to the

principle of standardization, reproduction and systematization verified by high turnover, high lever, high selling and high incentive. These enterprises include but not limited to Country Garden, Sunac, Vanke, ACTIVE REAL ESTATE (industry dark horse) and SHINSUN.

Studies show that almost all real estate enterprises gradually declining or disappearing display the following features:

(1) Long development cycle for each project; low fund turnover, capital turnover and stock turnover.

(2) From land-taking, going into operation, opening quotation, completion to delivery, the shortest development cycle of most of projects covering an area of tens of thousands square meters need five or six years, while those covering an area of hundreds of thousand square meters even need decades of years.

(3) Though these enterprises acquire many premium lands at the beginning, they create undesirable cash flow and revenue and do not achieve reasonable rolling speed.

(4) Only founders and presidents own abundant experience on promoting the innovative business development. Enterprises do not efficiently summarize these successful or fail experience and apply them to optimize operation, development and service.

(5) Since enterprises have not promote high-efficient standards on operation, product, marketing and service, they cannot be reproduced and

applied nationally, and also are unable to turn into value and efficiency beneficial for facilitating better, faster and larger business development.

The successful implementation of follow-up investment system, serving as catalyst, lubricant and accelerator, is credit to a perfect high turnover management system. Many enterprises transfer from a regional small one into a national Top 100 large-scale one through some efficient management measures and follow-up investment system, like Xinli in Nanchang City of Jiangxi Province, SHINSUN in Zhuji City of Zhejiang Province, Zhongliang in Wenzhou City of Zhejiang Province and Country Garden in Shunde City of Guangdong Province. These measures reflect on widely fattening a store of provision, diligently seeking money, establishing standards, adjusting operation and forcefully executing.

7.4.1 Set the Target and Achieve High Turnover

The essence of high turnover is to enhance the fund efficiency. The final goal of rapidly taking land, going into operation and selling is to achieve rapid payment collection. Project follow-up investment system serves as the precondition for realizing high turnover. Give much more motivation to every operator, carry out every sector more carefully and scientific. Establish closer connection with project in a partner mode. All these measures could avoid risks in land-taking, investment and development and obtain more accurate, stable and generous rewards.

Furthermore, project follow-up investment is the precondition of avoiding land-taking risks. Land-taking represents promise, and promise stands for goal. It is necessary to reduce the difference among land-taking calculation, scheme design and actual investment reward. Project team should set up corresponding plan before land-taking, establish development node goal and put such jobs at first as marketing, cost, bidding and purchasing, finance and fund. Investment profits should be analyzed and development operation objective has to be classified. Meanwhile, project follow-up investment usually requires land-takers to sign targeted responsibility agreement, regulating that corresponding penalties will be imposed if the predetermined goals set in development procedure have not achieved, like withdrawal of project awards, so as to promote the schedule of targeted plan.

The process of returning fund to fund needs a whole cycle period. Thus, payment collection is the key to rapid turnover strategy. Costs that enterprises need to assume during the smooth collection should be limited to an acceptable range by management^①.

In the past years, A Company focused on two collection indicators regarding to management: sales collection and comprehensive collection. The collection rate should reach to 90%. Project team will be probably withdrawn if not successfully complete collection. To build cost awareness for all staff

^① Source: *To achieve ten billion of profits, how do real estate enterprises apply the high turnover strategy?* SOHU.COM. https://www.sohu.com/a/229609286_155346

and make complete collection, A Company converts expenditures of all operation teams into fund occupancy cost and makes them attach to assessment.

A Company also changes incentive into collection incentive. Most of annual performances are accrued for awards based on profits generated in this year, while these profits need to subtract fund occupancy cost. By doing so, all operation team will build all staff cost awareness not having in general real estate enterprises.

To achieve high turnover target of rapidly taking land, going into operation, selling and making collection, enterprises usually set up standardized periodical targets. For instance, SHINSUN set up several strict requirements in diversified fields as followings: Realize 36710 in newly-entering cities: start operation within 3 months, open quotation within 6 months, achieve 70% of sales amount at the first beginning and make cash flow return to positive within 10 months. Realize 2579 in enterprise base city: start operation within 2 months, open quotation within 5 months, achieve 70% of sales amount at the first beginning and make cash flow return to positive within 9 months (one month shorter than the above). Currently, the company proposed new challenging target 1478: start operation within 1 months, open quotation within 4 months, achieve 70% of sales amount at the first beginning and make cash flow return to positive within 8 months (one month shorter than the above).

Country Garden insists on the principle of reserve high turnover lands as much as possible. The requirements for high turnover show in the following chart.

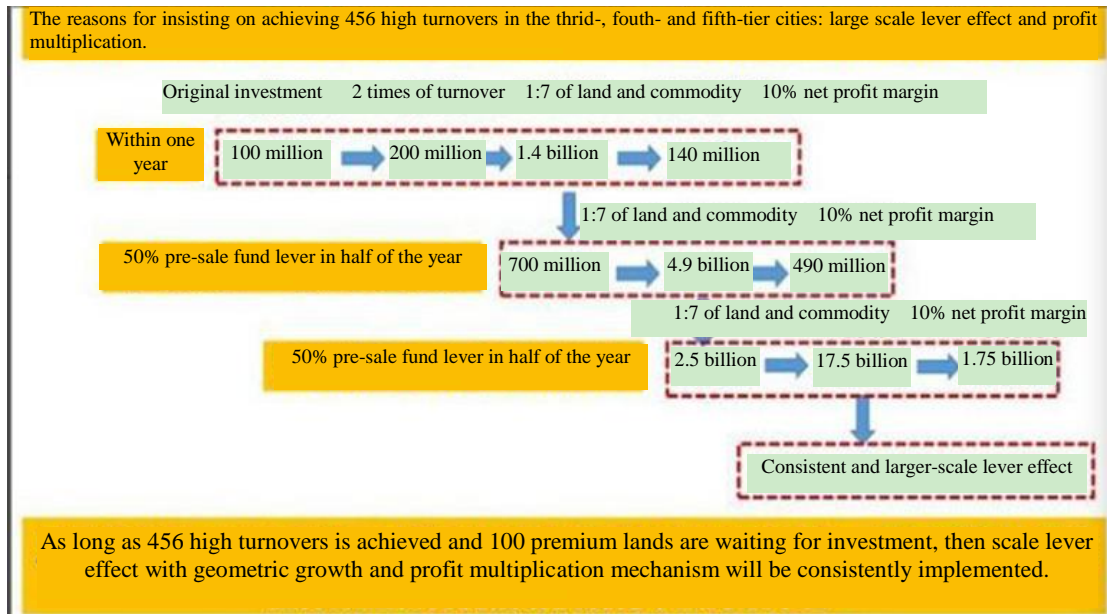


Fig. 7.29 High turnover requirements of Country Garden

Data source: Training document of Country Garden Group

7.4.2 Set the Standard and Strictly Observe It

Standardization field covers operation, product and service. A Company makes every effort to realize standardization, since it is beneficial for reproducing operation mode in a large scale, reducing management difficulty and improving executive force.

(1) The fields of operation standardization include organizational responsibility, procedure and system, work pattern and quality assessment.

During real estate development, the group and project company as well as various departments usually evade their responsibilities. The main

problems lie in unclear authority system, opaque responsibility boarder, unreasonable procedure, unscientific system design and non-standard work pattern. In particular, engineering technology department makes repeated design and delay artwork production and engineering schedule. Bidding and purchasing department applies lengthy procedures, examination timeline, publicity period of bidding and tendering, contract negotiation, internal contract review and approval. Engineering management department establishes unsuitable controlling procedure and inadequate plan, owns too much omitted items, leading to various bad results, for example, the report for approval and construction cannot be timely submitted, pre-sale certificate cannot be received timely, completion and acceptance timeline is delayed. Marketing has not been put at first. Marketing team construction, building of model apartment and model demonstrative area have not been considered during the period of product R&D. Thus, commercial opportunities are delayed and fund withdrawal is slowed down.

(2) The fields of product standardization include dwelling size, façade, structure, refined decoration, purchasing, material, cost and acceptance.

(3) The fields of service standardization include customer, user and property.

Follow-up investment system is the key to forcefully implement standardization, since it can guarantee quality, improve speed and reduce costs.

Combining team with project is beneficial for rapidly adapting to the development period of real estate market. Rapidly occupy market and promote commodities. One of major ways for scaled real estate enterprises to adapt to the market is that collect all commodities to make promotion and selling, while standardization acts as a powerful tool to guarantee the speed. Enhancing the sustainable acquiring ability of funds and lands and other resources is helpful for coping with management complexity with multiple projects, pattern and regions.

Standardized operation is useful for guaranteeing the coordination among internal enterprises to achieve a result of $1+1 \geq 2$. Promote standardization in land-taking, positioning, product, cost, purchasing, implementation, marketing, delivery and property management. Motivate project development to enter into green rapid passage. Develop consistent summary and learning capabilities to make rapid reproduction and expansion.

7.4.3 Build the System and Intensify Incentive

Viewing from scientific real estate development procedures, it is uncommon to improve turnover efficiency through shortening completion period, no matter in the period of land-taking and starting to operation, or that of land-taking and opening quotation. This is because there are scientific, rigid and objective standards set on concrete solidification time and maintenance

time. The actual difference of rapid turnover among enterprises lies in management and operation efficiency^①.

In the view of A Company, the essence of rapid turnover is the management of real estate project, and the management nature lies in people. To make people exert the largest potential and value, it is required to perfect talent competition, examination and incentive system, build a coordinated, efficient and powerful team, improve organizational efficiency, promote greater cooperation among people and realize organization and individual targets. Someone even thinks that the success of A Company depends on an excellent HR director.

Follow-up investment system is beneficial for establishing internal horse-racing mechanism. Interior competition is encouraged in A Company. To enhance efficiency, staff can compete for position when building project team. We aim at promoting a recruiting positioning of putting talents in an important role, common ones in a general role and eliminating interiors. Team structure should be optimized too. During the period of land taking, various companies in different regions are encouraged to make positive competition and occupy resources. The more resources those regional companies obtain, the greater performance and awards they will receive. For marketing, internal

^① Source: *From land-taking to opening quotation, how many limited months do rapid turnover have?* Real estate Xiamen Station of Tencent. <https://xm.house.qq.com/a/20180422/008333.htm>

coordination and competition are also encouraged to transfer customers as much as possible.

Examination should be strengthened through standardization and positive incentive. Executive complexity can be reduced through product and service standardization. Seek for project directors and talents with strong executive force so as to influence internal employees in different departments. Design positive award system with market competitiveness to guarantee the executive force. Organizational activity can be stimulated through interior competition and horse-racing. Strict assessment is also beneficial for correcting the bad results due to unsuitable executive force.

Encourage employees through follow-up investment system. The system is able to stimulate the largest potential of self-organization, arouse internal driving force and provide incentives with market competitiveness for employees. Organization and staff can unit into an interest-sharing community through this system to achieve joint creation, sharing and assuming, improve operation efficiency, avoid operation risks and realize operation goals. The essence of the system is incentive. Its core logic is to strengthen cash flow management and profit management in operation cycle through the mechanism design of contribution and profit owned by follow-up investment participants. Thus, the key of follow-up investment system to achieve incentive result lies in the design of equity confirmation method, principal investment and return and profit mechanism.

7.4.4 Comprehensive Inspiration

The core nature and thought of project follow-up investment system will never change no matter making what adjustments. It mainly reflects on several aspects. First, utilize fund lever to enlarge ROI. Second, multiple mode combination can reduce investment risk value. Third, interest combination can play an incentive and restriction role for fund party and management party. High turnover is achieved through rapid withdrawal of project funds and consistent investment and profit under the incentive system. Namely, the incentive mode of follow-up investment leads to a good result of high turnover. Establishing standards and strictly implementing them are two key factors to guarantee that the incentive system can be smoothly achieved.

For real estate industry, it is a cross-industry mechanism reform to introduce in follow-up investment system originate form equity crowdfunding and risk investment field. Yet, any sophisticated system which is suitable for other industries will have some transplant respond due to changed background and environment. Due to the diversified industry nature, when bringing follow-up investment system into real estate industry, the nature of real estate industry should be comprehensively considered, for every detailed adjustment has strategic meaning.

It is better to attempt to consistent system reform, seek further development and utilize any springboard to promote the development of real

estate enterprises. This stands for a strategic stance of real estate industry leaders. Under the background of tightened national macro policy and frustrated real estate industry environment, the interest relationship between staff and enterprise can be greatly tightened through follow-up investment system. As a significantly efficient incentive measure, follow-up investment system solves the common problems in real estate industry, including rapid talent flow and tight cash flow. Meanwhile, there are only several years after this system being introduced into real estate industry, so it has not yet shaped and sophisticated. Thus, there are still plenty of rooms for its development and the future development potential seems very large.

The follow-up investment system has greater comparative advantages than other incentive mode. It is beneficial for making management transparent through interest coordination and reducing moral risks like monkey business conducted by managers. The project risks can be scattered through interest combination; thus, project safety and profitability can be improved. After participating in the system, project managers will invest in more efforts to control projects to obtain higher profits, which is a win-win mode for combining incentive with restriction. The system is beneficial for making staff and enterprise assume risks jointly and realizing interest sharing, which can reduce staff flow risk, perfect internal governance mechanism and remuneration system and improve enterprise competitiveness.

Follow-up investment system of real estate industry is able to stabilize internal talents and motivate staff's work passion. Besides, it also enhances the consistency of awareness about operation target and the decision efficiency. As a kind of incentive measure, follow-up investment system makes it more reasonable to attach the reward profit of system participates to project performance, which is beneficial for promoting the transformation of organizational and business mode innovation. However, the imperfect nature of the system also needs to be taken care by real estate enterprises. Although staff motivate has been stimulated at a large scale, there is compulsory follow-up investment system implemented by most of real estate enterprises. The development cycle of real estate project is relatively long, and the follow-up investment funds have no sufficient flowing period leading to some burden for senior management. Meanwhile, the system can accelerate turnover speed of real estate enterprises, thus corresponding financial risks and high turnover risks may be brought which need to be paid attention to by management. Besides, any enterprise has entrusted agent problem, which is easier to lead to moral risks for project managers to earn secret profits. Therefore, it is essential to establish a fair, transparent and scientific supervision mechanism.

CHAPTER 8. Conclusion, Expansion and Improvement

8.1 Research Conclusion

During the upstream cycle of real estate, the incentive system focusing on follow-up investment system will have great effect on improving the performance of real estate enterprises. Yet, is this follow-up investment system still efficient during the market adjustment and downstream cycle? How should real estate enterprises adjust the incentive system? By making questionnaire survey, interview and document research for 101 national real estate enterprises, this thesis completely describes the current situation faced by the follow-up investment of our national real estate enterprises, explains the enter mechanism, principal-returning mechanism, dividend mechanism and lever underpinning of the system and finally make comprehensive analysis and optimization through specific cases.

Specific research conclusions are as follows:

8.1.1 Real Estate Follow-up Investment System and “High Turnover” Development Mode

- 1、 The fundamental goal of implementing follow-up investment system by real estate enterprises is to achieve high turnover business mode.

- 2、 High turnover development mode requires enterprises to rapidly obtain land, go into operation, make sales and payment collection, and then carry out reinvestment and reproduction. The follow-up investment system provides a solid guarantee for high turnover.
- 3、 The follow-up investment system provides guarantee for high turnover development mode from the following five aspects:
 - (1) Risk control of project investment decision and decision efficiency balance;
 - (2) The unity of team interests and project income;
 - (3) The implementation of standardized operation, including operation standardization, product standardization and service standardization;
 - (4) The executive power of project team is significantly uplifted through self-organization and self-driving;
 - (5) The perfected enterprise incentive system plays an important role in promoting the sustainable development of the team.
- 4、 During the upstream cycle of real estate, follow-up investment system plays critical and positive role in the rapid development of enterprises. Most of enterprises achieve hyper-normal development through this system.

5、 The fundamental factor for making follow-up investment system efficient is to establish corresponding enterprise organizational structure and operation management system.

8.1.2 Real Design of Estate Follow-up Investment System

8.1.2.1 Selection, Quota and Operation Platform of Real Estate Follow-up Investor

(1) Follow-up investment system is generally divided into compulsory follow-up investment and voluntary follow-up investment. The former mainly consists of senior executives working in the headquarter and regional or project company, while others are allocated to voluntary follow-up investment.

(2) The quota and proportion of follow-up investment can be confirmed based on project equity. The percentage can be set to 5%, 10% and 15% in terms of project scale. The total amount of follow-up investment project (including lever quota) generally shall not exceed 10% of project fund peak.

(3) The quota and object of follow-up investment adhere to the principle that different proportion is allocated by different level. It also should have some relativity with the company's development scale and phase. The higher your level is, you receive the more quota of follow-up investment. The overall proportion is relatively small and the level has a positive relativity with the

income. Staff with low-income level receives fewer follow-up investment quota and mainly carries out voluntary follow-up investment.

(4) Voluntary follow-up investment normally puts less pressure on staff. On the other hands, since staff is more familiar with the whole project, there is a higher possibility for them to create some revenue through their own efforts and teamwork.

(5) During the upstream cycle of real estate, the quota of compulsory follow-up investment should be reduced as much as possible so as to relieve the pressure on core staff.

(6) The goal of follow-up investment is achieved through operating shareholding platform structure of business partner system.

8.1.2.2 Return Mechanism for Real Estate Follow-up Investment

(1) Follow-up investment principal is usually paid at participants' own cost, while the company will not pay for it.

(2) Scientific and reasonable principal-returning mechanism is able to consistently uplift participants' confidence about the follow-up investment project. The design of principal-returning mechanism mainly consists of two factors, namely, times and period of principal-returning and principal-returning condition.

(3) Principal is usually returned for several times, mainly 2-4 times. By doing this, the efficiency of follow-up investment funds can be improved and the participants can receive valid guarantee.

(4) Principal-returning condition varies due to different enterprises, yet the following three phases are the ideal choice for most of companies:

A. When the project operating cash flow returns to positive state and operating expenditures in the next 6 months are reserved, the project company shall return 50% principal to follow-up investment company within 30 days.

B. When the investment funds of shareholders are withdrawn, the project company shall return 75% principal to follow-up investment company within 30 days.

C. When self-funds receive balance, the project company shall return 100% principal to follow-up investment company within 30 days.

8.1.2.3 Profit Sharing Mechanism for Real Estate Follow-up Investment

Follow-up investment dividend system mainly consists of dividend condition, timeline and times.

(1) It is not only significant to design follow-up investment principal-returning system, but to set up clear dividend conditions for project company, which will have sharing effect for combining with the interests of follow-up investment staff.

(2) Follow-up investment dividend conforms to two principles, namely, net operating cash flow returns to positive state; project revenue is positive.

(3) Some enterprises associate selling rate and completed sales area or amount with dividend or project yield. The business management philosophy is reflected by establishing higher standard on follow-up investment funds dividend and adding association conditions.

(4) Most of enterprises apply multiple, not one-time, dividend approach, so as to balance the interests between company and follow-up investment participants.

(5) Multiple dividends generally consist of pre-dividend and formal dividend.

A. Pre-dividend conditions: positive operating cash flow; positive net profits; 90% project selling rate. Pre-dividend design is able to balance the acceptance level of follow-up investment participants and uplift their confidence and motivation.

B. Formal dividend conditions vary due to different enterprises and projects. Currently, most of enterprises apply the following mode: When annual yield of project reaches to 0%-12% during settlement, follow-up investment participants will receive dividends based on annual yield of project. When annual yield of project reaches to 12%-18% during settlement, follow-up investment participants will receive dividends based on 1.2 times of annual yield of project. When annual yield of project reaches to 18%-25%

during settlement, follow-up investment participants will receive dividends based on 1.5 times of annual yield of project.

(6) Different enterprises set up varied orders for dividend and principal-returning. For Vanke, principal-returning is ahead of dividend. The total staff follow-up investment funds are not so large and have short occupying cycle and timely allocation, leading to high staff motivation. While for Country Garden, dividend is prior to principal-returning. Dividend represents earnings. Follow-up investment participants will firstly witness its benefits, while keeping principal safe and guaranteed.

8.1.2.4 Funding, Bottoming and Incentive

(1) During the upstream cycle of real estate market, most of enterprises provide financing lever for employees. The lever percentage is 1:2-1:4, while the calculated financing annual interest rate is 8%-10%.

(2) Financing lever mainly focuses on group, region and city management, not on first-line employees.

(3) During the upstream cycle of real estate market, it is beneficial for enterprises and employees to providing follow-up investment financing lever for employees. First, financing lever is helpful for relieving fund burden for follow-up investment employees, rapidly promoting follow-up investment and preventing it from delaying at the stage of fund raising due to fund pressure. Second, financing lever could facilitate employee motivation and avoid

project risks. Employees investing in loans certainly will be more careful when selecting investment and land-taking projects. Thus, real estate enterprises are able to select projects with high margins and low risks at the stage of land-taking, so as to improve the business profit quality.

(4) Enterprises have diversified attitude toward underpinning. Half of them provide the underpinning system, while others do not. For the latter enterprises, most of them require follow-up investment participants to assume limited responsibility, while few need them to provide unlimited duties.

(5) Project follow-up investment shall thoroughly consider the fund affordability of employees and evaluate their income level. When implementing follow-up investment project, it is best to integrate financing lever with underpinning system to provide more incentives to employees and lower project risks.

(6) Follow-up investment system plays full incentive role during the upstream cycle of real estate market. Yet, when entering into the downstream cycle, it is not sufficient to provide necessary protection for professional managers. In particular, financing will further increase the risks, thus, financing is encouraged to cancel completely.

8.2 Selection of Follow-up Investment System under Different Management Objectives

Chinese real estate follow-up investment system emerges to achieve “high turnover” enterprise development model. In practice, follow-up investment system aims at the most fundamental management objective, risk control + incentive. As what Yu Liang, Chairman of the Board of Vanke, follow-up investment system aims at enhancing the quality of project management and elevating the accuracy of project decision.

With increase in enterprise scale and project, management mode based on headquarter’s centralized decision can no longer achieve comprehensive risk control. In terms of management, local properties of real estate project can but rely more on self drive of project team. Follow-up investment system turns top management and key employees of group company and project to shareholders of group company and project company and ties each other’s interests. The more you earn the more profits you will gain and the harder you have to work. Likewise, it turns grass-roots employees to shareholders of project company and ties their interests to project earnings. Not only you can’t ignore risk, you have to strive for interests. If great losses are caused or it is hard to implement projects, you will lose your capital.

In terms of management, the implementation of follow-up investment system is sinking of “responsibility, right and benefit” system of enterprise

from enterprise headquarter to project. However, follow-up investment system is intended for balance and efficiency of the sunk “responsibility, right and benefit” system.

8.2.1 Co-creation Type Follow-up Investment Mode

As to management objective based on “risk control + incentive”, many enterprises adopt “re-creation follow-up investment mode” in the initial stage of implementing follow-up investment mode. At that time, the real estate industry is in a transitional period, and layout, profit model, management model and product of enterprise change drastically. This mode absorbs and motivates professional manager through distributing project profit to them, low basic pay and high return. In most cases, professional manager selectively follow up investment and set strict conditions for return and dividend distribution. They do not set a bottoming safeguard mechanism under most circumstances

For professional manager, “co-creation type follow-up investment system” stresses “excess incentive”. However, enterprise hopes to control risks and develop new financing channels through “excess incentive”.

For example, Country Garden launched “Achievement sharing” plan in 2012 and adopted project follow-up investment mechanism since 2014. That is, group investment accounted for above 85% and employee may follow up investment by a shareholding ratio of no more than 15% to build a joint

venture company after internal examination and approval of project. Achievement equity of regional project of Country Garden accounted for 20%, namely 20% of net profit of project was distributed in the stage of sale, delivery and settlement.

Meanwhile, “Achievement sharing” plan set strict regulations:

1. According to regulations, if a new project suffered from losses in the assessment period for whatever reason, 20% of losses should be borne by regional president and project manager;

2. If cash flow cannot recover positive in a year, the assessment unit would be disqualified for continuing to participate in achievement sharing plan;

3. If rewards were not gotten, regional and project management would be punished as appropriate.

“Achievement sharing” plan plays a critical role in early development of Country Garden. It has been doubted until some got rewards of 80 million Yuan unexpectedly in the end of year and this plan was found not to be an empty promise. “Everyone worked hard after 2014.” Said Liu Senfeng, former regional president in Jiangsu of Country Garden.

“Co-creation type follow-up investment mode” of Country Garden sets up a good example for middle and small-sized real estate enterprises short of financial resources and excellent teams and with a strong desire for expansion.

8.2.2 Sharing Type Follow-up Investment Mode

“Co-creation type follow-up investment mode” has an obvious enhancement effect in the beginning. However, with the implement of follow-up investment system, only a few people can further get involved whether in entry mechanism or withdrawal mechanism. Simultaneously, manager overestimates “excess incentive” and weakens the management objective of “risk control” in the process of implementation.

In 2014, Vanke launched business partnership system, which turned “co-creation type follow-up investment mode” to “sharing type follow-up investment mode” and stresses a balance between “risk control + incentive” more. In fact, it raises the management requirements for “risk control”.

e.g.: As to scope of follow-up investor, directors, supervisors and senior executives of Vanke cannot participate in project follow-up investment; while all staffs of Country Garden can get involved.

From the point of withdrawal mechanism, Vanke allowed to withdraw from follow-up investment after project liquidation instead of reselling and withdrawal midway. However, Country Garden required announcing appreciation of investment semiannually. Investor may withdraw from follow-up investment if profit was made and may not do so if loss was caused.

From the point of return mechanism, Country Garden required equality of share and right as well as responsibility and benefit for minority and

majority shareholders. However, Vanke increased the conditions for return after project funds reached the peak. One similarity was that project team was motivated to return shareholder loan as quickly as possible and a main difference was that Vanke had more definite management objectives for project management team.

From the point of dividend distribution, Country Garden required project company to distribute dividends only after profit is made; while Vanke required distributing dividends several times after total net cash flow recovers positive.

For this reason, Country Garden adjusted “Achievement sharing” plan to “United sharing” plan in the end of 2014 in the following three aspects:

1. Identify mandatory follow-up investment scope: Directors, vice presidents, head of the center, regional presidents and project managers should carry out mandatory project follow-up investment;

2. Identify follow-up investment amount: Other employees than the aforesaid mandatory follow-up investors can follow up project investment voluntarily without exceeding the upper limit. Regional president and project manager should invest in projects within their jurisdiction with an investment ratio of no more than 10% and group staffs can invest in all projects with an investment ratio of no more than 5%.

3. Identify return mechanism: After cash flow of project recovers positive, profit can be distributed, invested in other projects or handed over to group

company for paid use. Dividends can be distributed if profit is made, but investor cannot withdraw from follow-up investment if loss is caused.

Country Garden's management objective of "risk control + incentive" was further achieved through optimizing co-creation type follow-up investment mode to sharing type follow-up investment mode. In 2018, Country Garden followed up investment in 388 projects all over the world with an investment amount of 8.48 billion Yuan and a principal of 1.85 billion Yuan. With a land-house ratio of 1:3 and leverage of 2.5, follow-up investment created value of above 60 billion Yuan, which greatly relieved financial stress.

8.2.3 Joint Venture Type Follow-up Investment Mode

Follow-up investment mode is gradually developing from co-creation type to sharing type and joint venture type.

Sharing type follow-up investment mode is a relative balance point between enterprise benefit and employee benefit and professional manager directly invests in project and becomes project partner to assume project risk and value. As the principle of "entropy" in substance, when the difference in benefit of both parties is eliminated and a non-equilibrium state turns to an equilibrium state, "entropy" of both parties is maximized. Management objective of enterprise also becomes a mature management mode of "profit

sharing and risk pooling” from a management objective of “risk control + incentive”.

The biggest difficulty in “profit sharing and risk pooling” is to control the “degree” and the key is whether management systems for responsibility, right and courtesy are matched scientifically and whether enterprise has sustainable development ability. Actually, the transformation from sharing type follow-up investment system to joint venture type follow-up investment system specifies the conditions to meet the need for business management.

Survey of 101 real estate enterprises showed more and more enterprises carried out “joint venture type follow-up investment mode”. Table 8.1 showed that more than 50% of enterprises specified entry, withdrawal and safeguard mechanisms and tried to reach a balance among “responsibility, right and benefit” and a balance between “risk control + incentive” through specifying these management requirements.

Table 8.1 Selection of follow-up investment mode under different management objectives

Follow-up Investment Mechanism	Essentials	Condition	Ratio of Investigated Enterprise	Co-creation Type	Sharing Type	Joint Venture Type
Entry mechanism	Scope of mandatory follow-up investor	Selective mandatory follow-up investment for responsible person, voluntary follow-up investment for general staffs	11%	11%		
		Project leader and general staffs must follow up investment	7%		7%	
		Responsible person at group/city/project level must follow up investment	89%			66-89%
		Responsible person at city/project level must follow up investment	66%			
Withdrawal mechanism	Return frequency	Once	24%	24%		
		Twice	22%		55%	76%
		Three times	33%			
		Four times or above	21%			
	Return	Cash flow is positive	65%		65%	80%

	condition	Balance of own funds	15%			
		Recovery of shareholder's funds	10%	10%		
	Dividend distribution frequency	Dividends are distributed under special conditions	10%	25%		
		One-time dividend distribution	15%			
		Repeated dividend distribution	75%		75%	90%
	Dividend distribution condition	Operational cash flow is positive	47%		85%	
		Net profit is positive	38%			
		Operational cash flow and net profit are positive and sales conditions are added	44%			62%
		Operational cash flow and net profit are positive and yield rate conditions are added	18%	18%		
	Safeguard mechanism	Bottoming system	Principal safeguard mechanism is adopted	59%		59%
Principal safeguard mechanism is not adopted and defective item assumes unlimited liability			5%	41%		
Principal safeguard mechanism is not adopted and defective item assumes limited liability			32%			
Funding system		Funding leverage is adopted	75%	75%		75%
		Funding leverage is not adopted	25%		25%	

Co-creation type, sharing type and joint venture type follow-up investment modes represent different management objectives in different stages and different application ranges.

Generally, co-creation type follow-up investment mode attracts excellent employees through “excess incentive” and it is suitable for middle and small-sized enterprises that just start or are ready to expand rapidly. It also can be used by large enterprises to expand new businesses or new fields. Sharing type follow-up investment mode is suitable for fast-growing enterprises to achieve the management objective of strong incentive and risk control. Nevertheless, joint venture type follow-up investment mode is suitable for industry leading enterprises with perfect organization structure and management system and highlights a balance between incentive and risk control and between incentive and management.

There is an indistinct boundary among co-creation type, sharing type and joint venture type follow-up investment modes and some enterprises carry out a follow-up investment system in between. On the whole, joint venture type

follow-up investment mode represents the future development direction of follow-up investment system relative to co-creation type and sharing type follow-up investment modes. However, it does not mean that joint venture type follow-up investment mode is suitable for all real estate enterprises. Enterprise should treat follow-up investment system in a dynamic perspective and they should keep improving follow-up investment system according to local conditions and select a suitable follow-up investment incentive mode according to such factors as enterprise nature, development stage and employee resistance.

8.3 Expansion and Revision of Conclusion to Existing Research

The establishment of an advanced thought and innovation system will provide new development momentum for relevant industries. The follow-up investment system of real estate project is originated from real estate development industry with distinctive Chinese features. Theoretically, such a mechanism innovation greatly expands the meaning of modern business management. Yet, it also accelerates the development of related real estate enterprises.

8.3.1 Expansion of Organizational Theory

From the perspective of organizational management, the follow-up investment system of real estate project in China shows many common

features with traditional partner system, Principal-agent Theory and Amoeba organization, yet it also has various differences:

1. Real estate development is a periodical project, so the cycle of follow-up investment system is longer than traditional partner system and Amoeba organization.
2. Though follow-up investment system is combined tightly to project, not all projects will apply follow-up investment system due to diversified project features. For instance, just in one enterprise, some projects need follow-up investment, while others have no such a demand. Thus, the system flexibility is much higher than traditional partner system and Amoeba organization.
3. Follow-up investment system is usually parallel with business organization form, showing features of virtual organization.
4. Real estate industry indicates a significant fluctuation trend and has direct effect on the efficiency of follow-up investment system. Thus, adjustment and optimization are necessary during implementation, which is greatly different from the stability of traditional partner system and Amoeba organization.

From this point, the research on follow-up investment system expands the denotation and connotation of traditional organizational theory.

8.3.2 Expansion of Incentive Theory

Under the context of consistent and large growth of national real estate industry, follow-up investment system has been rapidly promoted and adopted by related industries. It is a consensus for real estate enterprises that their interests will be combined with employees and stockholders and the corresponding risks will be jointly taken by virtue of follow-up investment system. The key point of this system lies in land quality and development thought and operating capability of real estate industry. When project directors taking charge of regulation and control combine their interests together through project follow-up investment system, the project will be easier to succeed to some extent. If management staff, partners and department directors join in investment and become stakeholders, then project investment risks will be greatly reduced, profitability and team stability will be significantly improved.

From the point of interests, follow-up investment system of real estate industry expands the significance of traditional incentive theory. This system not only covers traditional Human Capital Property Right Theory, but owns some features showing in traditional equity incentive. Yet, it also has some new factors and characters:

- 1、 Traditional incentive theory seldom has the feature of jointly assuming risks, but follow-up investment system shows significant risk investment nature.
- 2、 General incentive theories seldom refer to financing. The application of lever further reinforces the feature of risk investment.
- 3、 Underpinning emerges with jointly risk-assuming. Though unified operation mode and theoretic identification have not yet established, relevant specialists have been discussing about these subjects brought by the follow-up investment system.
- 4、 Compared to equity incentive, follow-up investment system participants only have some limited rights, mainly referring to income right. They do not own operation right and decision right as well as stockholder right conferring in general equity incentive.

8.3.3 Comprehensive Sorting of Follow-up Investment System

Previous evaluation for the implementation of follow-up investment system in real estate industry mainly takes the way of case analysis. This thesis provides a research perspective from industry, enterprise and project levels, establishes macro and micro research framework and makes systematical and thorough analysis for the implementation of follow-up investment system.

In the context of existing fewer researches on the design of real estate follow-up investment system, the design of system referring to numerical range mainly utilizes qualitative analysis, like follow-up investment proportion, follow-up investment quota and dividend conditions. This thesis completely explains four aspects of the design of follow-up investment system: (1) range, quota and proportion of follow-up investment participants; (2) principal-returning mechanism; (3) dividend system; (4) financing and underpinning mechanism. Thus, the design mode of follow-up investment system has been systematically established.

Furthermore, this thesis applies case analysis to describe organizational management system reform and management mode required by the successful implementation of follow-up investment system.

The results obtained by this thesis research are beneficial for other real estate enterprises to fully utilize the advantages of follow-up investment system and avoid potential risks as much as possible.

8.4 Future Research Direction

Follow-up investment system, as a new system, brings many new advantages to the development of Chinese real estate development enterprises, studies traditional organization theories and incentive theories in a theoretical perspective, puts forward many new topics and adds many new elements. This

paper illustrates design of follow-up investment system systematically, but a lot of work remains to be done for building follow-up investment theory.

8.4.1 Research on Relevance between Follow-up Investment System and Industry Cycle

The real estate industry has showed an upward trend until now despite little fluctuation. The relationship between follow-up investment system emerging in the upward cycle of the real estate industry and industry cycle remains to be thoroughly studied:

1. Whether follow-up investment system is system that industry cycle adapts to (upward, stable, downward) or a cycle suitable for industry development only.

2. Follow-up investment system has an obvious effect in the upward cycle of the industry. However, the role of industry growth and follow-up investment system in positive correlation remains to be analyzed quantitatively.

3. Whether follow-up investment system is suitable for the real estate industry only or other industries is a valuable extension research direction.

8.4.2 Research on Relevance between Follow-up Investment System and Enterprise Development

1. Whether follow-up investment system is an inevitable option for enterprise development or a problem to be explained. Where there are obvious differences in short, medium and long-term development of enterprises that carry out and do not carry out follow-up investment system remains to be studied thoroughly.

2. Data shows that follow-up investment system positively facilitates enterprise development in the upward cycle of the real estate industry. In future, we need to build a complete set of enterprise development index system and identify positive correlation, no relation and negative correlation between follow-up investment system and indexes. Meanwhile, identify the degree of correlation quantitatively.

3. Relevant researches on the implementation effect of follow-up investment system and enterprise scale. Whether there are differences in the implementation effect of follow-up investment system of enterprises of different scales and whether these differences are regular remain to be studied thoroughly.

4. Research on relevance between follow-up investment system and organization structure of enterprise. Whether there are obvious differences in

the implementation effect of follow-up investment system of enterprises with different organization structures remains to be studied thoroughly.

5. Research on relevance between follow-up investment system and risk control system of enterprise. Follow-up investment system is driven by a balance between risk control and development speed. After follow-up investment system is implemented, whether risk control level of enterprise is improved significantly and what is the degree of correlation in a quantitative perspective.

8.4.3 Research on Relevance between Follow-up Investment System and Employee Incentive System

With the development of real estate project follow-up investment system, shortcomings and problems occurred gradually:

1. For mandatory follow-up investment, it takes a long time to recover the principal and more and more projects require mandatory follow-up investment. As a result, top management suffers from increasingly higher financial stress and the marginal effect of incentive function starts to decrease significantly.

2. Whether investor's individual risk and leverage risk arising from funding will offset the designed strong incentive.

3. For voluntary follow-up investor, whether project risk will have a reverse incentive effect.

4. Analysis of relevance between follow-up investment system and employee turnover rate (core employee and middle and basic-level employees).

5. The influence of follow-up investment system on reform of incentive system of enterprise, whether advantages outweigh disadvantages in the long run or follow-up investment system is effective in the short run, how follow-up investment system changes from profit sharing mechanism to mutual development to better promote enterprise development remain to be studied thoroughly.

8.4.4 Research on Follow-up Investment System and Information Disclosure System of Listed Companies

Follow-up investment system not only belongs to internal management system of enterprise but also causes information disclosure problems to listed companies. To improve project follow-up investment system, Shenzhen Stock Exchange issued a notice about standardizing employee follow-up investment of listed real estate enterprises on November 3, 2017. As requested by Shenzhen Stock Exchange, if listed companies directly or indirectly invest in real estate businesses jointly with employees, investment management system should be established and disclosed timely upon board resolution. If income distribution ratio is not consistent with ratio of investment, listed companies should explain reasonability of income distribution policy according to

comparable items such as historical yield rate and average yield rate in the report period and independent director should voice opinions. Investment management system should specify that listed companies should not offer loan, guarantee or financing convenience to participant. In future, information disclosure system for follow-up investment of listed companies is worth studying.

Follow-up investment system emerging with innovation of the Chinese real estate industry and traditional enterprise management theory open up a brand new study-worthy field, which not only should adapt to a new market competition pattern and help enterprise attain rapid and healthy development, but also intends to form new organization management and incentive management theories in a new era. This research is only a start of this new field in the hope of carrying out further studies and improving relevant studies to build a set of brand new organization management theories suitable for a new model.

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APPENDIX 1. Questionnaire on the Implementation of Follow-up Investment System of Real Estate Enterprise (Employee)

This questionnaire is carried out to deeply and comprehensively understand the development situation of the follow-up investment project of current enterprises and major problems and difficulties the project faces, and establish more targeted and operational policies and measures for reference. Your opinion plays a significant role for us to learn about the actual situation of the follow-up investment and the policy requirement. We promise that the personal information, your views and opinions will be strictly kept confidential and only be used to relevant policy research. Please complete this questionnaire correctly and truly.

Thanks very much for your cooperation and support.

Instruction:

1. This form shall be completed by the enterprise director. All data will be only used to make academic research. The personal information will not be disclosed.

2. We give several options for most of questions, please select the suitable answer according to the requirement and fill the number in the blank space or horizontal line.

3. Number or text can be directly completed in some options.

4. Please do not select two or more answers if not specially noted.

5. In case of any questions, please consult with the contact and avoid completing information not satisfying the requirements.

6. Contact phone:

1. Your current position: please select ()

A. officer B. department director C. company management

2. Your age: please select ()

A. under 25 years old B. 25-30 years old C. 31-35 years old

D. 36-40 years old E. above 40 years old

3. What features do you think the follow-up investment project of real estate partner have? Please select (multiple choice).

A. One kind of investment vehicle B. Short cycle, generally can be completed within two months (years)

C. It is time-honored and has already implemented for several years.

D. Wide participation range E. Generally have positive return.

4. What kind of partner follow-up investment project do you want to participate? Please select ()

A. Not participate B. Compulsory participation C. Voluntary participation D. Both compulsory and voluntary participation

5. Do you have upper and lower limits when participating in partner follow-up investment project? If any, please specify_____

6. The fund source of partner follow-up investment project in which you participated comes from: Please select ()

A. Self-financing B. Funds provided by the company

C. Financing channel provided by the company

7. The return cycle of partner follow-up investment project in which you participated. Please specify _____

8. How much income do you received through follow-up investment? _

9. Why do you participate in partner follow-up investment project?

(Multiple choice) Please select ()

A. Company regulation B. Receive additional rewards

C. Get long-time position in the company

D. Encourage myself to develop my talent and wisdom E. Work performance will be recognized

10. What are the goals of implementing partner follow-up investment system project in your opinion? (Multiple choice): Please select ()

A. Scatter project risks

B. Encourage staff to make every effort to work C. Retain talents

D. Fund-raising E. Enlarge the sense of belonging of staff

F. Improve enterprise performance G. Others (Please specify)

11. How many partner follow-up investment projects did you participate?

Please select ()

- A. 0 B. 1 C. 2-3 D. 4-5 E. 5 or more

Question 8-10: Learn about specific partner follow-up investment project situation and your opinion on the project.

12. How much do you know about the partner follow-up investment projects in which you participate? (Scores are given according to individual questions. Number 1-5 represents that the knowledge level is increasing.)

	1	2	3	4	5
Know the basic project situation					
Know project participants					
Know project ROI					
Know cash return time of the project					
Know project promotion and marketing situation					

Question 13-25: The opinions on the whole partner follow-up investment system

13. Do you think participating in partner-leading projects will affect your working passion and efforts? Please select ()

- A. Have completely positive effects B. Have certain positive effects
C. Have no effect D. Have certain negative effects
E. Have completely negative effects

14. In case of negative effects, the left side of the following chart describes the partner follow-up investment system, please give your scoring in the right side to show your acceptance level. (5-scoring mechanism, 1 point means the lowest acceptance level, while 5 points means the highest one.)

	1	2	3	4	5
This system makes you inactive and sluggish in work.					
This system intensifies the competition and conflict among team members.					
This system makes staff regularly disturb project operation.					
This system slows down project completion schedule.					
This system reduces project engineering quality.					

15. In case of positive effects, the left side of the following chart describes the partner follow-up investment system, please give your scoring in the right side to show your acceptance level. (5-scoring mechanism, 1 point means the lowest acceptance level, while 5 points means the highest one.)

	1	2	3	4	5
This system enhances your work passion.					
This system strengthens teamwork and connectivity.					
This system encourages subordinates to work hard.					
This system accelerates project schedule.					
This system enhances project engineering quality.					

16. Do you continue to focus on your launched projects? Please select.

()

A. Continue to focus on B. Occasionally focus on

C. Pay no attention to

17. What effect do you think the partner follow-up investment project have on the company performance? Please select. ()

A. Significantly improve B. Improve to some extent

C. Have no effect D. Reduce to some extent E. Significantly reduce

18. How do you think about the amount of partner follow-up investment project the company currently set? Please select. ()

A. Raise investment funds B. Reduce investment funds

C. Remain current investment funds

D. Not limited by investment funds on a case-by-case basis

19. Does your loyalty change after participating in partner follow-up investment project? Please select. ()

A. Enhance loyalty B. Loyalty has some change, yet resignation application will not be submitted during the project implementation.

C. Have no effect D. Lower loyalty

20. How much proportion do you think should the investment amount of partner follow-up investment project accounts in the total project investment? Please select. ()

A. 1%-3% B. 4%-6% C. 7%-9% D. 10% or above

21. Do you think the follow-up investment mechanism can help the company to retain or abstract talents? ()

A. Yes B. No

22 . Does the company's working environment improve after implementing the follow-up investment mechanism ()

A. Significantly improve B. Remain the same as usuals

C. Lower than before

23. Do you want to report to relevant directors on cut corners and other non-compliance actions after implementing the follow-up investment project?

Please select. ()

A. Yes B. No

24. After implementing the follow-up investment project, if you have greater ideas, yet conflict with those of leaders, do you still want to speak it out? Please select. ()

A. Yes B. No

25. In your opinion, which real estate enterprises have greater design philosophy on partner follow-up investment systems? Please select. ()

A. Country Garden B. Gemdale C. Evergrande Real Estate

D. Modern Land, E. YUEXIU F. Vanke G. Others (please specify)

Question 26-31: The opinions on the development situation of real estate industry?

26. Do you have some understanding about the cycle phase and features of real estate industry?

- A. Not at all B. Have little understanding
- C. Have moderate understanding D. Have much understanding

27. Do you concern the macro-control policy of real estate industry established by the country?

- A. Not at all B. Have little concern
- C. Have moderate concern D. Have much concern

28. Which home-buying demand do you think accounts for the largest proportion in current real estate market?

- A. Investment demand B. Speculation demand
- C. Self-living demand D. Others (optional)

29. Which development stage do you think our national real estate industry currently stay at?

- A. Stable and coordinated development phase. As a section of economy industry pillar, real estate industry has been developing stably.
- B. As the 80s and 90s start their career, real estate industry will enter into a new round of upstream stage with increasing demand.
- C. Currently, the proportion of national rigid-demand home-buyers (20-30 years old) in the total population has reduced year by year. The policy has been tightened and real estate industry has entered into a downstream phase.
- D. None of the above.
- E. Others (Please complete)

30. Which situation will significantly affect your intention to the follow-up investment of a project?

- A. The average vacancy rate of the industry is uplifting and trading volume of commodity house shows a trend of significantly reducing.
- B. The house price and rent has reduced in project region.
- C. Emergency bad news or events occur in the market.
- D. The number of bankruptcy small developers in project region has increased, making market pessimism improved.
- E. House price keeps long-term stable and there is little room for unit enterprises revenue.
- F. Others

31. Do you agree with the opinion that large developers are able to earn high return by virtue of scale effect, even if real estate industry stays at a downstream phase and there is little room for unit revenue?

- A. Agree
- B. Disagree
- C. No opinion

32. The name of follow-up investment project in which you participate and your current region

33. How do you think the follow-up investment project will provide support for your work?

34. In your opinion, what is the biggest challenge for the company during

its virtuous development? What effect can follow-up investment project plan have on solving this tough problem?

35. Which type of project do you prefer (including but not limited to culture and tourism, residence, old city transformation). Why?

36. In what aspects do you think current partner follow-up investment system is urged to make improvements mostly?

37. Do you want to participate again if there are any chances? Why?

APPENDIX 2. Questionnaire on the Implementation of Follow-up Investment System of Real Estate Enterprise (Enterprise)

This questionnaire is carried out to deeply and comprehensively understand the development situation of the follow-up investment project of current enterprises and major problems and difficulties the project faces, and establish more targeted and operational policies and measures for reference. Your opinion plays a significant role for us to learn about the actual situation of the follow-up investment and the policy requirement. We promise that the personal information, your views and opinions will be strictly kept confidential and only be used to relevant policy research. Please complete this questionnaire correctly and truly.

Thanks very much for your cooperation and support.

Instruction:

1. This form shall be completed by the enterprise director. All data will be only used to make academic research. The personal information will not be disclosed.

2. We give several options for most of questions, please select the suitable answer according to the requirement and fill the number in the blank space or horizontal line.

3. Number or text can be directly completed in some options.

4. Please do not select two or more answers if not specially noted.

5. In case of any questions, please consult with the contact and avoid completing information not satisfying the requirements.

6. Contact phone:

I. Company Profile

Company Name		Contact Phone	
Company Address			
Registered Capital		Total Assets	Fixed
Date of Founding		Staff Number	
Main Businesses			
The first time when the company implements follow-up investment system			

II. The survey on the implementation effect of follow-up investment system (Please complete the form for several times if there are multiple projects.)

Project Name			
Project Type (Multiple choice)	<input type="checkbox"/> Culture and tourism <input type="checkbox"/> Residence <input type="checkbox"/> Old city transformation <input type="checkbox"/> Others		
Current City		Launch Time	
Participants			Note: Please specify which ones are compulsory follow-up investment and which ones are voluntary follow-up investment.

Applicable Project		Note: 1. Please specify development cycle (short or long term). 2. Please specify project type (newly-developed project or old city transformation).
How to Participate		Note: Staff participate in the organization form of follow-up investment project of real estate.
Follow-up investment quota		Note: 1. The proportion of the overall team in real estate follow-up investment projects. 2. Whether it has compulsory minimum quota, it any, please specify.
Individual Quota		Note: The proportion of the individual in real estate follow-up investment projects. 2. Whether it has compulsory minimum quota, it any, please specify.
Allocation Condition		Note: Conditions needed to be satisfied in real estate follow-up investment project dividends. The return cycle shall be specified.
How to Allocate		Note: The concrete dividend approach of real estate follow-up investment project (please specify)
Quit Time		Note: The follow-up investment funds quit, yet real estate follow-up investment projects need to satisfy some conditions.
Follow-up investment financing		Note: 1. The company provides financing channel, staff self-financing or others. Please specify.
Resignation rate during the project implementation		
Net margin of the project		
Net income of the project		
Payback period of the project		
Return on investment of the project		

Benefits provided by the project to the company		
What needs to be improved in the project		