

# FINAL TRANSCRIPT

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**XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call**

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May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Helen Zhang**

*Xinyuan Real Estate Co., Ltd. - Director - IR*

**Yong Zhang**

*Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

**Tom Gurnee**

*Xinyuan Real Estate Co., Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Kun Tao**

*Roth Capital Partners - Analyst*

**Liang Hsu**

*Brean Murray Carret & Co - Analyst*

**Brandon Dobell**

*William Blair & Co. - Analyst*

**Rafael Mernay**

*Morning Glory Capital Management - Analyst*

## PRESENTATION

**Operator**

Please stand by. Ms. Helen Zhang, please go ahead.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

Hello, everyone. And welcome to Xinyuan's First Quarter 2010 Earnings Conference Call. The Company's first quarter earnings results were released earlier today and are available on the Company's Investor Relations website, as well as on newswire services.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in our registration statement and our Form 20-F and other documents filed with the US Securities and Exchange Commission. Xinyuan does not assume any obligation to update any forward-looking statements, except as required by applicable law.

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will comment on current operations and provide some perspectives on the market environment. He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will provide some additional color on our performance, review the Company's financial results, and discuss our outlook for 2010.

Following management's prepared remarks, we'll open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin. And I'll translate his comments into English.

Please note that unless otherwise stated, all figures mentioned during this conference call are in US dollars.



May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Please go ahead, sir.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

Hello, everyone. And thank you for joining us today. We are pleased to report solid first quarter revenue, GFA sales, and net income all exceeding the high end of our outlook for the quarter. The substantial cash flow generated from operations allowed us to pay down our \$100 million of floating rate notes and convertible notes on schedule in April. At the same time, we [filled] the new note of \$40 million with a three-year term. This has left us with a very strong balance sheet and overall financial position.

Recently, the government has implemented series of policies to try to curb speculation, especially in Tier 1 cities, where prices have risen the farthest and speculation has been the highest. The government policies to raise the down payment percentage for second homebuyers, suspend lending to third homebuyers to lead to the number of purchase a person can buy has had immediate impact on real estate sector as well as our results.

Since the middle of April, however, we believe we are well positioned within the context of these policies and that demand. So each of our development projects will remain focused on the long term.

We target middle-income consumers in Tier 2 and Tier 3 cities. Including the Kunshan project, more than 19% of our units are sold to owners (inaudible), not speculators. Compared to Tier 1 city developers, we do not expect to be as heavily impacted by these policies once we have been fully interpreted by local authorities and banks.

The Kunshan project is different from our other projects. And it may be heavily impacted in the near term due to the following factors. One, most of our home buyers in Kunshan are those who cannot afford to buy apartments in Shanghai. Our selling price is around RMB8,000 per square meter with more than RMB10,000 or 60% lower than prices in Shanghai.

Two, easy transportation only takes about 30 minutes to arrive in downtown Shanghai by subway. Three, according to the newly filled policies, local banks can suspend lending to non-local regions who fail to provide normal tax returns or proof of social security payments for more than one year in Kunshan.

With our discussions with local banks, they do not appreciate the new policies since they have hurt the local economy. However, the policies were implemented just a couple of weeks ago. It is too early to predict the lasting effect of change. But we do believe it will not have severe impact in the long run.

We have seven projects on the planning good land use (inaudible) has been fully paid -- have paid these projects, two of which began prefilled already in the second quarter should provide us with [present] land for growth. Over the next couple of years, we will see to our strategy of providing middle-income consumers with affordable for purchase.

Our floating cash position remains a key strength for us, especially if the market continues to be challenging. Many other developers in China do not have this advantage. Well, it is difficult to forecast the near-term sales change. Given the new government policies, our projects remain attractive. Pricing (inaudible) remains stable. And our balance sheet is solid. We remain content in (inaudible) and our future.

With that, let me turn the call over to Tom Gurnee, our Chief Financial Officer, to go over some of the details for the quarter and our outlook for the second quarter of 2010.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Thank you, Chairman. And thank you, listeners. Well, we expected the first quarter to be a seasonally slow quarter, given the factors such as Chinese New Year, et cetera. Our results were stronger than we expected and exceeded the high end of our guidance ranges.

GFA sales increased to 126,900 square meters in Q1, up from 47,000 in Q1 a year ago and 6% above the high range of our guidance. GFA sales were below the fourth quarter of 2009, the exceptional quarter, of 239,900 square meters, due to seasonality. The strongest sales were again in Kunshan International City Garden and Chengdu Splendid at 61% and 24% of total GFA sales, respectively.

Our aggregate ASPs increased to RMB7,713 per square meter. That's up 13% compared to the RMB6,826 that we reported in the fourth quarter of 2009. And it's up fully 43% over the RMB5,405 we reported in the first quarter of last year. Our largest active projects Kunshan, Chengdu, and Suzhou International City Garden experienced ASP increases for the quarter sequentially of 14%, 5%, and 19%, respectively.

Contract sales represent the gross amount of contracts consummated with buyers or presales we call them and essentially equals square meters sold times price per meter. The contract sales in the first quarter of 2010 totaled \$143.3 million. That is up 284% compared to the first quarter 2009, due to both GFA and ASP growth, and 10% above the high end of our guidance range. Contract sales were down from \$239.7 million in the fourth quarter of 2009, again due to seasonality factors and Chinese New Year.

Revenue recognized under the percentage of completion method increased 178% over the first quarter 2009 and was 5% above the high end of our guidance range. Under the percentage of completion method, of course, revenue for a given project is calculated as cumulative contract sales less 5.5% business tax times the project spending to date divided by the estimated total project spending.

Once again, revenue grew a little bit slower than contract sales, mainly because our contract -- our input cost spending was a little bit lower than expected. This improved revenue was primarily due to the fact that sales growth was stronger in our less mature projects, Kunshan at 56% sold and 61% complete -- that is 61% of the expected total construction costs have been incurred -- and Chengdu at 65% sold and 73% complete and Suzhou at 34% sold and 79% complete.

So let's take a look at the rest of the P&L, start with gross margin. Gross margin was recorded at 22.3% of revenue, up from 16.2% a year ago and 21.8% the last quarter, of the fourth quarter of 2009. This was primarily due to the impact of higher ASPs driving higher sales and also accelerated GFA sales rates, particularly in Kunshan driving improved cash flow and thus lower capitalized interest costs and again thus lower target costs.

The improvement drove a small favorable change in estimates for Kunshan and Suzhou and an overall change in gross profit of \$3.4 million, less than the \$8 million recorded as a change in estimate in the last quarter and \$6.5 million in the third quarter of 2009.

SG&A expenses considered to be well under control. And as a percent of revenue, they were 7.2%, down substantially from 11.7% in Q1 of 2009 but slightly up from 6.7% in Q4 2009, primarily due to the decline of sales and the expenses came down but not at quite the same rate quarter to quarter.

Advertising and promotional expenses were \$2.2 million, down sequentially from Q4 2009 by \$1.8 million or 45%, surely again, the largely variable nature of our selling expenses under the agency outsourcing model.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

SG&A compensation costs were \$2.2 million, down sequentially by \$1.1 million or 35% on lower bonus accruals. Our 45% joint venture Jiantou Xinyuan Real Estate Co. Ltd. contributed book profits to Xinyuan of \$0.6 million in the first quarter versus an income of \$2 million in the previous quarter in Q4 2009 as its projects neared completion.

The process of acquiring the 45% of Jiantou Xinyuan continues as we are in the midst of a 20-working-day option process common for sale of state-owned assets. If we prevail, completion of this acquisition will be complete this quarter. And we would immediately begin development of a parcel of 198,000 square meters currently under planning.

Income taxes in the first quarter were 34% of pre-tax income, as expected. We expect the tax rate to continue approximately at this level for the foreseeable future.

Net income in the first quarter therefore totaled \$11.9 million. That's versus only \$1 million in Q1 of 2009 and \$15 million in Q4 of '09. It's also 19% ahead of what we guided last quarter.

The balance sheet continued to improve. Cash on hand increased \$94 million from year end to \$292 million. The debt outstanding increased by \$45 million from December to \$297 million.

As previously announced, on April 15th, 2010, we repaid in full the \$75 million floating rate notes and \$30 million convertible note obligations on schedule and completed a placement of \$40 million aggregate principle amount of a guaranteed senior secured note plus warrants to a holder of Xinyuan's previous floating rate notes.

Also in April, we fully paid [Wendu] the final land premium for our new [G-non] project. That means that now we have full title to all projects at Xinyuan with no further land premium payments due.

Operating cash flow in the first quarter of 2010, excluding land premium payments, totaled \$69 million versus about \$170 million in the previous quarter in that exceptional Q4 of 2009. Real estate property under development rose \$95 million from year end to \$655 million, mainly due to land premiums of approximately \$150 million in the quarter.

We had no new land acquisitions in the first quarter 2010. And as of March 31st, 2010, our land bank totaled 1,924,000 square meters, consisting of projects under development of 428,500 square meters and projects under planning of 1,495,900 square meters. Jiantou also -- in addition and not included in those numbers, Jiantou had a land bank of 237,800 square meters as of March 31st.

So now I'd like to talk about the outlook. Xinyuan is currently in the best financial shape it's ever been in. Our petty cash flows are healthy. Debt levels are low. All our land parcels are fully paid for. And we continue to exert strong controls of our operating expenses. In short, we're poised -- very well poised for growth.

However, the recent government policy actions in April and May have given us reason for pause. And I'd like to spend a few minutes discussing what we're currently seeing in our markets and how we believe we're positioned in light of these policies.

On April 17th, the government raised minimum mortgage rates and down payment ratios for home purchases after property prices surged at record pace in March. For a first-time homebuyer of apartment grade of 90 square meters in size, now a minimum 30% down payment is required versus 20% previously. And for second homes, down payments must be at least 50%, previously 40%. And mortgage rates on second apartments must be at least 110% of the benchmark range versus 100% before. And for third and subsequent purchases, banks must require substantially higher down payments and mortgage range.

Also last week, the government unveiled additional rules in Beijing that restrict each family to the purchase of only one new apartment. This is for the city of Beijing, not for the country as a whole. The Beijing government also ordered the implementation of central government policies that ban mortgages for purchases of third and third-plus homes. It also incurs banks to deny



May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

mortgages to non-local residents who cannot provide more than one year of tax returns or proof of social security payments in that region.

These policies are aiming to curb speculation, obviously, and particularly in Tier 1 cities, where prices have risen the fastest and speculation's been the most rampant and where apartments are the least affordable.

However, we felt the impact of this tightening in certain of our markets as well in Tier 2 cities. For example, in Kunshan, the site of our largest active project, 182 apartments were sold in the first 18 days of April. And following the government's announcement, we have sold -- until yesterday, we have sold just nine units. And none have yet been sold in May. Local banks in Kunshan are simply not granting mortgages to anybody as they seek bank policy clarification from their headquarters.

So far, while traffic is down slightly from first quarter across our projects, our other projects do not appear to be as affected by the new policies as Kunshan has been. So while clearly we're not immune to the restrictive impact of these policies, we believe we're relatively well positioned compared to other real estate developers in China for several reasons.

First, we target middle-income consumers in Tier 2 and Tier 3 cities, where price increases and speculative buying have been much lower. And with the -- and during the first quarter, with the exception of Kunshan, more than 90% of our units were owner occupied. In Kunshan itself, the owner occupier ratio is much lower. It's about 10% to 20%.

In Kunshan, our ASP's at approximately RMB8,000 per square meter, is nearly 60% below the average prices in Shanghai. At just 30 minutes from downtown Shanghai by subway, Kunshan provides an affordable solution for workers in Shanghai but who have not been able to continue buying in Kunshan due to the residence restrictions on these mortgages. So depending on which project, approximately 8% to 18% of our customers, or an average of around 10% in total, pay fully in cash versus applying for mortgage.

We've also been through downturns before as recently as the fourth quarter of 2008 and the first quarter of 2009. During our worst quarter in history, Q1 2009, we were still profitable and operating cash flow positive. And due to our much leaner cost structure, we expect to be profitable each quarter this year, even if sales decline slightly or precipitously.

It is also important to note that this tightening is a result of government actions, not yet a purely economic issues. We currently do not have plans to lower our prices as we already provide mid- to low-end price range developments in our markets, which are affordably priced. Our strong cash position and balance sheet will also continue to be key point of strength if the market continues to be challenging.

We also have already established a pipeline for growth over the next few years with the seven projects that we have under planning and fully paid for. We currently have sales permits for two of these projects, Xinyuan Splendid in Chengdu and Longhai in Zhengzhou. And we're starting presales of these projects in this quarter.

In addition, Suzhou Colorful Garden, which we just purchased in the fourth quarter, has entered into its construction phase. And we can expect sales permits there also in the near future.

Now given the uncertainty created by all these actions, it's very difficult to provide an outlook for the remainder of 2010. And I'm simply not going to do so here. We hope to be able to provide more detail as we move through the year and hopefully just through the next couple of weeks. And we hope to gain more clarity on the impact of government policies on our markets.

I want to thank you for listening to this. And I want to open this up to questions.



May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

Okay. Thank you. (Operator Instructions). We'll take our first question from Kun Tao with Roth Capital Partners.

**Kun Tao** - *Roth Capital Partners - Analyst*

Hello.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Hi, Kun.

**Kun Tao** - *Roth Capital Partners - Analyst*

How much of contract sales haven't been recognized in the quarter?

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

I'm sorry. Could you repeat that?

**Kun Tao** - *Roth Capital Partners - Analyst*

How much of the contract sales haven't been recognized in the quarter?

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

How much of the contract sales has not been recognized in the quarter? I'm afraid I don't know how to answer that. I don't understand the question.

**Kun Tao** - *Roth Capital Partners - Analyst*

Okay.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Are you saying what percent complete did we use?

**Kun Tao** - *Roth Capital Partners - Analyst*

Yes.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Well, it varies by project. We have a table in the press release called project status.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Kun Tao** - Roth Capital Partners - Analyst

Okay.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

And it shows project cost complete there. You could probably do the math by project.

**Kun Tao** - Roth Capital Partners - Analyst

Okay.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

And times the earlier table that shows ASPs and GFA.

**Kun Tao** - Roth Capital Partners - Analyst

Okay.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

You could do the math. Multiply GFA times ASP. And then multiply by these numbers. That'll tell you how much we haven't recognized.

**Kun Tao** - Roth Capital Partners - Analyst

Okay. Okay. And then other than the Kunshan project, what were the contract sales situations like on the other projects after the policies that were announced?

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Well, they were lower. But coming back a little bit, for example, Chengdu sold about 175 apartments in the -- through April 18th. And then through the end of April, it had sold just 39 more.

**Kun Tao** - Roth Capital Partners - Analyst

Okay.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Where as in Kunshan, it sold just nine during that period.



May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Kun Tao** - Roth Capital Partners - Analyst

Okay.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

In the meantime, Zhengzhou Colorful Garden was buoyant. It sold more during that period than it did in the first 18 days of the month. So we kind of -- if we split April into the before and after of this government policy, Kunshan sold nine apartments. And then in May, it hasn't sold any. And the banks are -- all have their head in the sand awaiting instructions from headquarters. So it's simply not lending anything.

Chengdu in May is now up to about 13 apartments. So it's recovered. It was just one a few days ago, so in the last four days sold 3 apartments. So it's a mixed bag. Suzhou's affected. Suzhou does not have any sales this quarter either. So we're awaiting these banks to make their internal decisions to establish what really is the market going forward.

**Kun Tao** - Roth Capital Partners - Analyst

Okay. And then what is your strategy to minimize the policy impact?

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Maybe, Helen, could you turn that one over to the Chairman?

**Yong Zhang** - Xinyuan Real Estate Co., Ltd. - Chairman, CEO

(spoken in Mandarin)

**Helen Zhang** - Xinyuan Real Estate Co., Ltd. - Director - IR

Two points -- one is we will temporarily suspend the land acquisition plan, probably starting Q3. And second is cash position. We're going to hold a very healthy cash position under the condition that sales may drop by 50% of the overall market. And we believe that our current cash flow will support the Company for at least one or two years' operation.

**Kun Tao** - Roth Capital Partners - Analyst

Okay. And then when do you think you'll have a better picture on how much the policy will impact your 2010 financials?

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Well, this is Tom Gurnee. I think we have to have some decisions from some government and these banks within about two weeks. I have to think that. They can't continue to not have any mortgages in all of Kunshan, for example. And then to interpret and to see the trends in the other ones, I would guess about 30 days we probably would -- two weeks to have the policy communicated to those banks and probably two more weeks to fully understand them. But that's -- obviously, I'm speculating here. But I can't believe that we would have no clarification of these policies or no policies at all in these micromarkets, like Kunshan, any later than two weeks from now. I just can't imagine.



May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Kun Tao** - Roth Capital Partners - Analyst

Okay. Great. Thank you.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Thank you.

**Operator**

And Liang Hsu with Brean Murray, please go ahead.

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Hi, Liang.

**Liang Hsu** - Brean Murray Carret & Co - Analyst

Hi, Tom. Well, I think I just want to kind of follow up on the project level. You mentioned about the Kunshan and Suzhou sales impact due to the policy. But do you also see other weakness in other cities or other projects that you think that you might need to kind of lower your selling price in order to sustain your GFA sales at this point?

Well, at this point, we're not doing anything on price because we -- there's no point to what this -- this is an administrative freeze going on right now. Now it may morph into an economic freeze. But right now, there's really no point to it. Price is not the issue. I think the issue is availability of mortgages.

Now are the others affected? Yeah, I'd say we're affected everywhere. But we're least affected in our backyard, which is Zhengzhou. So far, apartment sales have been pretty good there. We're most affected in Kunshan and in Suzhou. And then somewhere in between is Chengdu. But we're -- so suffice it to say that we're pretty much impacted everywhere, except Zhengzhou right now.

And as far as pricing you're asking, we definitely made the decision in the short term not to touch prices until -- unless this becomes a purely economic matter versus an administrative matter.

**Liang Hsu** - Brean Murray Carret & Co - Analyst

Okay. So you are still confident in kind of achieving a year-over-year growth of about 5% to 10% in ASP this year, as you guided in last quarter?

**Tom Gurnee** - Xinyuan Real Estate Co., Ltd. - CFO

Well, no. I didn't say that either. I would say this. In putting our POC, percentage of completion, estimates together for what the projects are going to do, we obviously aren't -- weren't immune from the nervousness everybody's describing of the bubble. So now we finally have some administrative guidance here.

No, I do not forecast from here forward. We've already had a run up of 13% in the first quarter. And we do not expect that to keep running another five single digits beyond this. We're already way ahead of that earlier plan. I did in my percentage of completion accounting projections show slight decreases, well, 5% to 10% decreases in Chengdu and -- I mean, in Kunshan and Suzhou in the near term followed by flat. Now why did -- did I have any reason to do that? No. But I was just trying to be a

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

little bit cautious. But we're not taking those actions. There's not a strategy per se. It was a prediction. And we recognize that we don't control price in this country. But so far, we consider it pointless to drop price.

So no, I do not expect prices to increase, not at this point. And so I guess that's a little bit of a change from before. But before when we mentioned this before was before recording a 13% increase in Q1 as well.

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**Liang Hsu** - *Brean Murray Carret & Co - Analyst*

Okay. And given that you have your solid cash positions on hand, do you also consider -- I know the Chairman just mentioned about you want to reserve a healthy cash position. But given that the smaller developers at this point are getting harder to gain their construction loan, so I'm just wondering would you be able to like take the advantage of kind of to acquire smaller developers?

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**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Well, if you could give us some names, Liang, that would be great. But definitely, yes, we're interested. We are prudent. Nobody knows where this is going. This is the first time I've ever not given guidance in the short term. So we're very prudent here. And the Chairman wants to make sure his company is in very, very solid shape. But yes, we are constantly on the lookout for -- we will be looking at other properties. We'll go to auctions. And we will look for M&A opportunities, although there haven't been very many in China. But we will continue to be vigilant for that.

We feel we're a survivor. We feel we're in a very good growth position. If this just clarifies a little bit, we'll be in great shape. So yes, to answer your question, yes. We look at land. We're not going to go buy land this week, not until we get some interpretation on Kunshan and Suzhou. But as soon as we do get a little clarity and we're a little bit comfortable, yes, we're back on the trail.

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**Liang Hsu** - *Brean Murray Carret & Co - Analyst*

Okay. So that means there's no -- nothing under the pipeline right now.

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**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

I wouldn't answer you truthfully on that anyway, Liang, so --

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**Liang Hsu** - *Brean Murray Carret & Co - Analyst*

Okay.

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**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

I mean, we are going to auctions. Okay. As far as our historical method of acquiring lands, yes, we're still attending auctions. We're appraising one in [Hefay] right now and others. So no, we're still going through the auction appraisal process. But it'd be really hard to pull the trigger on one right now with these -- this condition until we get a little clarity.

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**Liang Hsu** - *Brean Murray Carret & Co - Analyst*

Okay. I think that's all I have for now. Thank you.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Operator**

(Operator Instructions). And, Brandon Dobell with William Blair, please go ahead.

**Brandon Dobell** - *William Blair & Co. - Analyst*

Hi, Tom, just want a quick one for you. Do you think the smaller I guess micromarkets that you called them will wait to see what Beijing and Shanghai do? Or do you think they can make decisions independent of what may be one of the Tier 1 cities?

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Well, Brandon, that's a good question. What we've found by their actions is that, no, they will not make a decision independently. We have found that they are just as anxious to lend as we are to have our borrowers borrow.

**Brandon Dobell** - *William Blair & Co. - Analyst*

All right.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

But they're unable to because they are awaiting instructions from headquarters. This is what we hear.

**Brandon Dobell** - *William Blair & Co. - Analyst*

Okay. And okay.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Okay.

**Brandon Dobell** - *William Blair & Co. - Analyst*

And just one quick one, one more for you -- you mentioned some of the trends in the contract sales. How has consumer traffic been, maybe seeing people still coming in looking, they're just waiting? Or are people really taking a step back and saying not even going to look until I get a better idea of what the mortgage market looks like?

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Well, I'm glad you asked that because I went and got the data on that about three days ago. And the number of buyees coming through is high, except Kunshan. And I think it's because Kunshan, they know it's hopeless to get a mortgage at this point with it frozen. But the traffic compared to previous traffic before the 18th, the traffic is good so far.

**Brandon Dobell** - *William Blair & Co. - Analyst*

Okay. Great. Thanks a lot.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Not up, but it's not down a lot either.

**Brandon Dobell** - *William Blair & Co. - Analyst*

That's pretty good for this market.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Yes.

**Brandon Dobell** - *William Blair & Co. - Analyst*

Okay. Thanks, Tom.

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Thanks, Brandon.

**Operator**

And, [Rafael Mernay] with Morning Glory Capital Management, please go ahead.

**Rafael Mernay** - *Morning Glory Capital Management - Analyst*

Hi. Would you be able to talk a little bit about what you see as the correlation between Tier 1 and Tier 2 ASPs going forward and how well you would expect Tier 2 to hold up in the context of a significant market decline?

**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Helen, can you give this one to the Chairman?

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

(spoken in Mandarin)

**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

We believe that -- because before the announcement of the policies, the ASP in the second tier cities, especially those we have presence, continues to grow. So we believe that after the issue of the new policies, the ASP growth trend will be suspended in the second tier cities. But for Q3, in terms of the ASP growth trend, it's still a question mark. It's too early for us to predict.

May. 10. 2010 / 12:00PM, XIN - Q1 2010 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

(spoken in Mandarin)

**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

And the policy which suspending the non-local residents to buy a house in other provinces, according to our understanding, is just happening in Beijing and Shanghai.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

(spoken in Mandarin)

**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

And in terms of the second tier cities, according to our understanding, just citing example for Zhengzhou and see -- and the local government says that it can take people in the same provinces as the local residents.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

(spoken in Mandarin)

**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

So in conclusion, because different local governments have different interpretation of the newly issued policy, it's too early for us to give a clarification of the overall picture.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman, CEO*

(spoken in Mandarin)

**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director - IR*

But we believe that the theme of the government policy is to encourage the migration and the marginalization of these second tier and third tier cities.

**Rafael Mernay** - *Morning Glory Capital Management - Analyst*

Okay. Thanks.

**Operator**

(Operator Instructions). And there are no further questions. I'll turn the call back over to management for closing remarks.



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**Tom Gurnee** - *Xinyuan Real Estate Co., Ltd. - CFO*

Well, thank you. This is Tom. And I just want to thank everybody for attending. And I want to apologize for not being clear on guidance. But we can't invent facts. We have to report what we find. And again, I'll reiterate that I think Xinyuan is probably in the strongest financial position it's ever been in. And we're very bullish on the future. As soon as that future becomes clear, we'll let you know what they are and what our strategies are. Thank you very much for attending this call. Thank you.

**Operator**

And that does conclude your conference call for today. Thank you for your participation.

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