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XIN - Q1 2014 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Co., Ltd., First Quarter 2014 Earnings Conference Call. Please note that today's call is being recorded.

I would now like to turn the conference over to Mr. Bill Zima of ICR. Please go ahead, sir.

William Zima - *Integrated Corporate Relations, Inc - Partner, Managing Director*

Hello, everyone, and welcome to Xinyuan's first quarter 2014 earnings conference call. The company's first quarter earnings results were released earlier today and are available on the company's IR 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 U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results would be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in our registration statement in our Form 20-F and other documents filed with the U.S. Securities and Exchange Commission. Xinyuan does not assume any obligation to update any forward-looking statements except as required under applicable law.

Today, you will hear from Mr. Yong Zhang, the company's chairman, who will comment on our operating results and provide some perspectives on the property market environment. He will be followed by Ms. Helen Zhang, the Interim CFO, who will provide some additional color on Xinyuan's performance, review the company's financial results and discuss the financial outlook.

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

With that said, I will now like to turn the call over to Xinyuan's Chairman, Mr. Yong Zhang. Please go ahead, sir.

Yong Zhang - *Xinyuan Real Estate Co. - Founder, Chairman*

Thank you, Bill. Good morning, and thank you all for joining us on our first quarter 2014 earnings conference call. Xinyuan is experiencing another strong quarter growth exceeding our contract sales and the revenue forecast as market conditions were generally stable in the cities in which we



operate. Among our five most active projects, we experienced increases in average selling prices while our other two experienced ASP decreases as a result of change in product mix.

During the quarter, we commenced pre-sales of one new project, Beijing Xindo Park, and we acquired three new land parcels in Chengdu, Sanya, and Changsha. We made one additional land acquisition in April in Shanghai. We are excited about these moves and the prospects in front of us.

As we look to the remainder of the year, [the sales growth], it is expected to accelerate as we generate meaningful sales through our aggressive expansion efforts. We have six projects scheduled to commence pre-sales, including four projects to launch pre-sales in the second quarter. We expect the strong pipeline to contribute great levels of year-on-year growth in the second half of the year. We are committed to investing in our business for future development and growth.

Lastly, we confirm comfort with our full-year [taxes for costs]. In the first quarter, we repurchased shares and decided to distribute quarterly dividends in order to maximize our shareholder value.

Now please allow me to turn the call over to Helen Zhang, our interim CFO.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Thank you, Chairman. I'd like to start by touching upon some of our key financial highlights for the first quarter 2014. First quarter contract sales totaled \$273.9 million exceeding the midpoint of previous guidance of \$227.5 million by 20.4%. Total first quarter revenues were \$226.4 million, exceeding the midpoint of previous guidance of \$197.5 million by 14.6%. Net income was \$10.1 million, which also exceeded the midpoint of our guidance.

In terms of new land acquisitions, we acquired three parcels of land in Q1, in Chengdu, Sanya, and Changsha, and an additional parcel of land in April located in Shanghai. The total GFA of these four new projects are around 675,000 square meters, and the total land premium is approximately RMB 2.9 billion, equivalent to \$473 million, and we have paid \$472 million of the land premium as of the reporting date.

One thing I will like to highlight is that we have been very selective on the markets we have presence in or decide to enter. Our criteria includes GDP growth higher than national average, population over 5 million, stable demand and sustainable land supply and healthy local supply-and-demand dynamics. Generally speaking, what we're seeing in the market now is that nationally there is some softening in momentum and pricing in some regions. But our active projects have not been negatively impacted and we continue to be very selective on the markets we enter and continue to carefully evaluate the possibility of each potential project on a risk-adjusted basis.

Against these backdrops, let me give you some color on the rationale of entering these three new cities. Sanya is a primary vacation destination in China and has been the most popular domestic tourist destination for four consecutive years. Our project sits along the seaside with an average unit size around 17 square meter. We chose this product and design to meet the solid demand from customers who would like to have a small-sized vacation home along the seashore in the most popular tropical island in China. The floor price is around RMB 3,000/square meter and we expect the average selling price to be around RMB 15,000/square meter.

Changsha is the capital city of central China's Hunan province, with high disposable income level and strong demand. The GDP for capital in Changsha is ranked the number among China's central provinces. We have been researching the Changsha market for several years. The project is near to Meixi Lake, which has been the most important development area in Changsha over the past few years. The floor price is around RMB 2,600 per square meter, which is quite reasonable in our opinion.

The Chengdu project is located in the high growth area in Shanghai. The total saleable GFA is 63,000 square meters, with a total land cost of \$146.5 million. We plan to build affordable housing for first home buyers as we did in Beijing. We believe the market conditions of Tier 1 cities are more favorable and these represent a good opportunity for the company to enter the Shanghai market strategically by investing in a product of suitable project size at a reasonable land price.

As for our capital structure, as of March 31, 2014, the company reported \$655 million in cash and cash equivalents, including restricted cash, compared to \$837.2 million as of December 31, 2013. Total debt outstanding is \$947.2 million, an increase of \$136.2 million from \$811 million at the end of fourth quarter of 2013. The cash decrease was largely due to \$376.3 million of land acquisitions and deposits for negotiated land, partially offset by deposits from bank loans and other long-term loans totaling of \$192.4 million.

As we have discussed in our last quarter call, the company is on-track to scaling up our business and will focus more on contract sales growth in 2014. In Q1 2014, we turned into a net debt position from net cash position as of December 31, 2013, to fund our acquisition and to take advantage of market window for financing. Net gearing in Q1 was around 31% and is still among the lowest in the industry. The company will closely monitor its gearing and debt level to ensure that the company is growing with a manageable balance sheet.

We are pleased to continue our quarterly dividend payment program. Xinyuan's Board of Directors has approved the payment of a quarterly dividend of \$0.05 per ADS, payable on June 12, 2014, to shareholders of record as of May 30, 2014. As we continue to be confident about the company's future, we repurchased approximately 1.54 million ADSs in the market at a total cost of around \$7.6 million in the first quarter. We will continue our repurchase program based on share price performances when the market permits.

And now, let me walk you through our Q1 financial results in greater detail. Contract sales totaled \$273.9 million in the first quarter compared to \$178.3 million in the first quarter of 2013, exceeding the midpoint of previous guidance of \$227.5 million by 20.4%. The increase in contract sales was primarily due to pre-sales generated by our newly commenced Beijing Xindo Park project, which contributed approximately 28.2% of XIN's GFA sales and 44.6% of contract sales in the first quarter.

Zhengzhou Xin City, Suzhou Xin City, and Jinan Xinyuan Splendid are the other three major contributors to the first quarter contracts sales. Collectively, they contributed 46.1% of the Q1 contract sales. The company's GFA sales were 127,100 square meters in the first quarter of 2014 versus 241,700 square meters in the first quarter of 2013 and 124,400 square meters in the first quarter of 2013.

The average selling price per square meter sold was around RMB 13,000, equivalent to a \$2,200 in the first quarter of 2014, versus RMB 9,700, equivalent to \$1,600 in the first quarter of 2013, and RMB 9,000, equivalent to \$1,100 in the first quarter of 2013. The quarterly ASP might saturate when commercial properties start pre-sales and they tend to have higher ASP versus residential properties.

On the back of strong contract sales, we recorded total first quarter revenue of \$226.4 million, a 33.6% increase from \$169.4 million reported in the first quarter of 2013. First quarter revenue exceeded the midpoint of previous guidance of \$197.5 million by 14.6%.

Gross profit for the first quarter of 2014 was \$59.4 million or 26.2% of revenue, compared to a gross profit of \$94.9 million or 32.8% of revenue in the first quarter of 2013, and a gross profit of \$55.7 million or 32.9% of revenue in the first quarter of 2013. Gross margin contraction in Q1 2014 is mainly due to revenue mix shift rather than price cuts as follows. First, revenues from few higher margin legacy projects were recognized last year, such as the Zhengzhou Modern City, which was acquired over five years ago and has over 40% gross margin due to low land cost but they were mostly completed and delivered in 2013. Second, Chengdu Xinyuan Splendid and [Huangshan City], two projects together contributed more than 35% of revenue in the first quarter of 2014. Both have low (inaudible) gross margins. In addition, in the first quarter, we increased the cost of two near-completion projects as we're entering final settlement with the contractors.

SG&A expenses were \$24.3 million for the first quarter of 2014 compared to \$35.1 million for the fourth quarter of 2013 and \$12.4 million first quarter of 2013. As a percentage of total revenue, SG&A expenses were 10.7% compared to 12.1% in the fourth quarter of 2013 and 7.3% in the first quarter of 2013. The sequential SG&A decrease was primarily due to less promotion and selling expenses, which is in line with our sales performance and less spending during Chinese New Year. The year-on-year increase of SG&A expenses was mainly due to an increase in personnel related to the rapid expansion of [Xinyuan's] development project and higher promotional spending levels on a company's new project launch in the first quarter and other upcoming pre-sales projects.

Taxation. The effective tax rate increased largely compared to Q4 2013. However the domestic income tax and land value-added tax rate remains unchanged. The increase is mainly due to risk-level expenses, especially the interest expenses related to the \$400 million high-yield bond and TPG's convertible notes. And the company is working on tax planning to reduce tax liabilities [attainment] level.

Net income was \$10.1 million, a 68% decrease from \$31.6 million in the fourth quarter of 2013 and a 62% decrease from \$26.6 million reported in the first quarter of 2013. The decrease of net margin was mainly due to a lower gross profit and higher interest expenses.

The New York City project is on track. As of today, we have finished 70% of the foundation work and related underground installations. The superstructure will start early June, with target Q4 2015 early stage of delivery and Q2 2016 full completion. Market is on a big upswing so we expect our pre-sales to start in late May. As for the Reno and [airline] projects, we didn't recognize revenue on both of the projects in the first quarter.

Going forward, we'll continue to be very selective and focused on profitability and unit economics when evaluating potential projects. Though debt level is expected to grow during our expansion, we'll be carefully managing our balance sheet and be prudent about new land acquisitions.

As we have stated in our last call, six new projects in China will launch in the [eighth] Q2 or in the second half of the year. We expect the sales revenue and profit recognition for the year to be backend loaded. You may find the details of the new project launch in the press release. As margin tends to be lower in early stage of a project due to the percentage of completion calculation method, we expect a lower growth pace in profitability. Gross margins for the year will be in the range of mid to high 20s for 2014. As part of our re-expansion plan, an increase in SG&A, especially compensation, is expected and these costs are front loaded. When our new project matures and operational team becomes fully in place in 2015, we expect the profitability to pick up again.

Now let us move to the second quarter 2014 outlook. The company expects contract sales in the second quarter 2014 to reach approximately \$277 million. Revenue is expected to total \$230 million in the second quarter, while net income is expected to reach \$23 million, which includes certain tax expenses benefits to be realized in the second quarter.

And this concludes our prepared remarks for today. And, operator, we're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go to our first question from Matthew Larson with Morgan Stanley.

Matthew Larson - Morgan Stanley - Analyst

Good morning. Couple questions. I didn't hear any comment about hiring a new CFO?

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

Okay. Let me translate this question to our chairman.

Yong Zhang - Xinyuan Real Estate Co. - Founder, Chairman

The overall operation of the company is running in a very good manner. Execution is good and we're having a very healthy financial position. The Board of Directors pay a lot of attention to the CFO appointment, and the company and the board is in the process of searching and evaluate. And we don't want investors to worry about the CFO candidate. And also, at the same time, the company thinks that Helen Zhang as the interim CFO is doing a good job and we'll keep our investors posted when we have something material to report.

Matthew Larson - Morgan Stanley - Analyst

Okay. Second question, I guess you could respond. TPG, which is one of your largest shareholders, presumably is taking a larger role in some of these financial decisions since they have a lot of money at stake and they have expertise in this area? And two, they invested at 25% or 30% above the current stock price. So I would assume that they have an interest in marking to the market there holding, something close to what they paid for it. Are you going to continue to, I would hope, escalate your share purchase, repurchase buyback numbers at these extremely low levels because you have the capital from all the high cost money raise, the two 13% debentures? And finally, I heard that this year you have extra expenses and things like that but 2015 we should really see the results. What sort of earnings do you think that you could be showing in revenues for 2015?

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

For the important role that TPG is playing with regard to the operation of the company, yes, TPG is helping the company to grow and we have a lot of discussions especially with regard to the investment decision from bigger project and overall perspective. And also, the company repurchased 1.54 million ADSs in Q1, at a total cost of \$7.6 million, and we will continue to buyback our shares after this earnings release when market permits. That's for the share buyback.

And with regard to the forecast for 2015, I believe it's too early to talk about it but I think I can give some clue to the investors. One, the company is growing and it is our goal that, in the future coming three years, we would like to grow around 30% for the top-line or probably even more depending on the market situation. And in 2014, the net income level is comparatively lower because 2014 is a year for investment and building but we believe that when the project gets maturer and other resources are in place for 2015, net margin will grow to normal levels, meaning that could be in the range of 10% to 15% of total revenue.

Matthew Larson - Morgan Stanley - Analyst

Okay, thank you.

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

You're welcome.

Operator

We'll take our next question from Andrew Oksner with Campanile.

Andrew Oksner - Orion Partners - Analyst

Yes, thank you very much. By almost any metric, price earnings or book value, the stock appears to be dramatically undervalued. Is there any -- are you allowed to provide any insight or guidance as to why that might be the case? Is it more market driven? Are there some aspects of this, in your opinion, that are unique to your company? Look forward to your comments. Thank you.

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

Let me put it this way, I believe the current calculation of the stock price probably is more related to the overall market situation. There is some media coverage talking about the potential slowdown of China economy and the softening market situation. I think that might give some negative impact to the company's stock price. And another thing is we are the only real estate developer in China which is listed in the U.S. stock market. And probably it's a little bit different when we're communicating with U.S. investors, and real estate sector sometimes is policy sensitive. So we

need to have more communication with the capital market. And at the same time, the company is very confident for our future and that is why we kept buying back our shares and also continue to maintain the long-term dividend payment policy.

Andrew Oksner - *Orion Partners - Analyst*

Thank you. Just as a follow-up, are any new specific actions contemplated to help boost the price? Or is it just the current actions focused on share buyback and implementing your projects and maintaining profitability and growth?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Based on the SEC regulation, the company can resume share buybacks right after the earnings release. And also, TPG [were] actively working with the company's team to do some more IR activities in the future and letting investors know more about the company and also the future development of the company.

Andrew Oksner - *Orion Partners - Analyst*

Thank you very much.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

You're welcome.

Operator

We'll take our next question from Mike Ronzio with Morgan Stanley.

Michael Ronzio - *Morgan Stanley - Analyst*

Hi, thanks for the call. Two lines of questioning. First, I'd like to start with getting a bit more detail on some specific projects. For example, looking at three of your projects that are currently doing pre-sales, we saw some pretty significant sales growth decreases. That would be the Jinan Xinyuan Splendid, the Xuzhou Colorful City, and the Kunshan Royal Palace. I was hoping you could comment on those and then I'd like a bit more detail on your Shanghai project where you see average selling prices there?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Let me try to talk about the overall picture for 2014 with regard to the top line. Due to the low inventory, for the first six months, we are running out the inventory and at the same time we're implementing the loan acquisition. So with regard to the sales or revenue, first six months will count for about 30% of the overall contract sales of revenue, meaning that for the total sales, this year will be a backend loaded year. And in Q2, we believe that in Q2 2014, five existing projects, as just Mike mentioned, will continue to be the major majority for our sales, and at the same time, the three projects in China will be launched and contribute to the contract sales and our revenue.

And let me try to talk about the newly launched project from Q2 and the later part of the year. The Zhengzhou Xindo Park is our first commercial project and will contribute about RMB 650 million in contract sales in 2014, and Suzhou new project and Xingyang project will also be launched in Q2 2014. This is Suzhou new project, which is named the Suzhou Lake Royal Palace, will contribute about RMB 800 million and this Xingyang Splendid, the new project, will have about RMB 500 million in contract sales in 2014.



And also, we have a new project in Jinan and new one in Chengdu. These two projects are scheduled to be launched in Q3 2014 and Q4 2014. Jinan Royal Palace, which is the name of new project, is expected to contribute RMB 820 million in contract sales this year. As we have talked about, the four new land acquisitions early in Q1 this year, we have listed all the details of the pre-launch date in our press release. I can read it to you. The newly acquired Sanya land and the Shanghai land and Changsha land, the three of them, the pre-sales launch date will be sometime in Q1 2015. So, we don't believe that Shanghai land will make contribution to the sales for year 2014.

With regard to the overall market of Shanghai, when we're evaluating the project and make a decision of the investment, we also evaluate the possibility of these projects. As we talk about a criteria when we're evaluating the project, the gross margin is no less than 25% and with the net margin no less than 10%.

Michael Ronzio - Morgan Stanley - Analyst

Okay. So, you expect to achieve at least 25% gross margin on the Shanghai project then?

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

Yes, this is our target.

Michael Ronzio - Morgan Stanley - Analyst

Okay. Even with the over RMB 14,000 a square meter of land costs, I'm assuming?

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

Because the pre-launch date is sometime next year, so we'll see whether there is some market saturation. It's too early to predict it but that's our goal.

Michael Ronzio - Morgan Stanley - Analyst

Okay. Okay, thanks. Sorry, just to get back to, for example, your Jinan project that has already started pre-sales. I mean by the end of last year, you had sold 80% of the GFA there. However, in this quarter, you had only sold 84%. So, I mean the sales growth pace has really slowed down and I'm just curious if you could comment on that specifically?

Helen Zhang - Xinyuan Real Estate Co. - Interim CFO

Well, it really depends on the product portfolio. In the past, most of the products are high-rise buildings, apartments. And from the beginning of this year, we start to sell some of the multi-layer products, which are comparatively of higher price in that project. So, the run rate is getting slower, which is very natural when you're running a project.

Michael Ronzio - Morgan Stanley - Analyst

Okay, thanks. Okay, that's very helpful. I didn't realize the project mix there. And sorry, second line of questioning. Just a couple of queries on specific balance sheet items. It looks like short-term bank loans increased quite a bit, about \$90 million. I'm just curious if you could comment on the use of proceeds in general terms, average interest rate, the lender type, that sort of thing?



Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

The short-term loan actually is from the construction loan. And also, at the same time, we have successfully applied for some track loan from the market. So, with respect to the funding costs for the construction loan is in the range of 5.8% to 8%. And with regard to the track loans, the cost for us is in the range of 8.5% to 11%.

Michael Ronzio - *Morgan Stanley - Analyst*

Okay, thank you.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

So, overall, our financing costs in domestic China is about 9%.

Michael Ronzio - *Morgan Stanley - Analyst*

Sure. Sure, understood. And then finally, last balance sheet item. Other receivables went up about \$130 million. Just curious if you could explain about how these came about and who the counterparties are?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

This is mainly where the increase actually is mainly related to the Shanghai land parcel. We acquired this land parcel by acquiring 100% of the equity interest of this company. Actually, it's kind of [shale] company because there's only one project there. So by the end of Q1, we -- first of all, we give a shareholder loan for that company before the transaction was completed.

Michael Ronzio - *Morgan Stanley - Analyst*

Okay. And is that repayable on demand or is there anything else --

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Well, by the end of Q1 we haven't fully paid the deal consideration and, in April, we completed everything, meaning that a share transfer has been completed and then that number will be transferred to the real estate under development.

Michael Ronzio - *Morgan Stanley - Analyst*

Okay. Okay, thanks very much.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

You're welcome.

Operator

(Operator Instructions) We'll go to our next question from [Guy Daline] with [uCratos].



Unidentified Participant

Good evening. First of all, I think Helen Zhang is doing a fine job and she is still interim CFO. But as an investor, we wouldn't mind seeing Helen Zhang as CFO. But that's your own business. That was my first remark. Secondly ...

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

[Thank you].

Unidentified Participant

Sorry?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Thank you very much. I'm sorry.

Unidentified Participant

No, no I am not in Xinyuan management, but I think if you communicate in a more open way to a market perhaps it will certainly help long-term investors, as we are, to remain confident and other investors like us, long-term investors could join the company as shareholders. Another point is regarding your full-year guidance, which you stated in your press release from year-end 2013. Do you confirm these revenue run 1.230 billion, 1.280 billion for revenue and net income of around 120, 125 for the full year?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Yes. Actually the company was ahead of Q1 budget and is now on track for our Q2 performance. So, at this stage, we're comfortable with the full year guidance announced last quarter.

Unidentified Participant

Okay. Now regarding your -- you make a huge plan of recruitments, if I understand well, back last summer in 2013 in order to prepare for the future growth and future development, loan acquisition, construction and so on, planning and so on. Do you see your budget in terms of general and administrative expenses? I'm not talking of selling expenses just general administrative expenses. Do you see your budget on a quarterly basis being more or less stable now that you have done this recruitment in the coming quarters?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Okay. As we're expanding with -- in terms of the absolute amount, definitely it's going to go up. However, I would like to analysis in term of the percentage of revenue and percentage of sales. We believe that in Q2, probably G&A in term of revenue, will be around 9% and in term of percentage of sales will be around 8%. And I believe that as time goes by, as our sales pick up in the second half of the year, the SG&A as percentage of both revenue and sales will gradually go down.



Unidentified Participant

Okay, understood. Okay. And the last point, if you can make a kind of summary of where do you stand regarding land acquisitions so far? You mentioned in your last press release and your last conference call, in February, that you were looking for acquiring something like around \$900 million of land in 2014. How much have you done? And do you still confirm this budget or it depends on macroeconomics and local conditions?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Yes. With regard to the land acquisition, first of all, I would like to reiterate that the company will be very selective and prudent and careful when we're evaluating land acquisition opportunities. And with regard to the budget for land acquisition for year 2014, the budget would be around RMB 7 billion, which is around \$1.1 billion. And in the Q1 and also in April, we've acquired four parcels of new land, and the total land cost is around \$2.9 billion. And actually, we have already paid almost all of them.

With regard to the land acquisition for the second half of the year, we'll be very selective, continue to be very selective and careful. And also, we'll carefully evaluate the market situation to see if it is necessary for us to make any adjustments.

Unidentified Participant

Okay. Thank you very much.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

You're welcome.

Operator

We will take our next question from Matthew Larson with Morgan Stanley.

Matthew Larson - *Morgan Stanley - Analyst*

Hi, thanks for taking my follow-up call. The decline in the local currency, the yuan, of say 3% from year-to-date, has that helped you out considering you raised close to \$400 million in U.S. dollars through a couple of large offerings? Have you been able to, I guess, reduce the cost of that financing by converting some of those proceeds into your local currency to make some of these land purchases?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

We believe that exchange rate fluctuation of U.S. dollars against RMB probably will be kind of regular in the future. And also, talking about our bonds, the tenure is five years and flat, and that the short or medium term exchange rate fluctuation will not have negative impact on our onshore loan and part of the U.S. dollar has been transferred into domestic China. So, probably, we will consider hedging our foreign exchange position if the long-term foreign exchange market trend is exposed. We will see.

Matthew Larson - *Morgan Stanley - Analyst*

I see. I guess I was just saying that you raised the money recently, and then subsequent to the large raising of capital here in the U.S., you made a number of large purchases in the PRC and it would have translated quite nicely because of the decline in the local currency in the PRC so the dollar would buy more. That's number one. And the second question I have pertains to your primary U.S. development in Williamsburg, Brooklyn, that

you state that you're going to begin pre-sales this month. You bought that for \$58 million or so a couple of years ago. If you get your pre-sale numbers and what have you, what sort of return do you expect to get on that investment?

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

And by answering that question, please allow me to pass this question to the VP of the company, Mr. John Liang. John, please.

John Liang - *Xinyuan Real Estate Co. - Executive Vice President, Investment Strategies*

Hi, Matt. This is John Liang. I run the U.S. business. I'm answering your question from New York.

Matthew Larson - *Morgan Stanley - Analyst*

Okay.

John Liang - *Xinyuan Real Estate Co. - Executive Vice President, Investment Strategies*

We are targeting to start the pre-sale process toward the end of this month and have a full launch of our marketing effort sometime in June. Right now, we're working on the model unit and showrooms. Construction is on pace.

In terms of the numbers on pre-sale, just a minor correction, we bought the land for \$54.4 million. And our projected sales number, very conservatively, is well north of \$300 million. Our total projected development cost is in the \$240 million to \$250 million range. So we -- right now, that's our projection. Obviously the market is red hot right now in New York and there is a constrained supply of condo units, especially new product, in the entire city of New York. So, we're reasonably optimistic on the profit we'll generate from this project.

Matthew Larson - *Morgan Stanley - Analyst*

Let me ask then now, you paid \$54 million and it has gotten even redder and hotter since you made that purchase couple of years ago.

John Liang - *Xinyuan Real Estate Co. - Executive Vice President, Investment Strategies*

Yes.

Matthew Larson - *Morgan Stanley - Analyst*

But the numbers you just gave me, a development cost of \$240 million plus the land purchase...

John Liang - *Xinyuan Real Estate Co. - Executive Vice President, Investment Strategies*

Oh that includes everything.

Matthew Larson - *Morgan Stanley - Analyst*

Oh \$240 million includes the land purchase?



John Liang - *Xinyuan Real Estate Co. - Executive Vice President, Investment Strategies*

Yes.

Matthew Larson - *Morgan Stanley - Analyst*

All right. So then, whatever you earn above that is why you guys are in business, which is the profit. So you said most conservatively is \$300 million, which would give you a profit of \$60 million, which would more than a double on your original investment. Okay. I'll look forward to following that. I'm in New York and it's an interesting project for me and one of the reasons I got involved in a big way in your company because many people had doubted whether there was the cash on the balance sheet that XIN had stated for many years because the stock just was so low it didn't seem to support that. When you started making investments that required cash -- and by the way, raised your dividend, have bought back shares over the years, you put folks such as Anthony Walton on the board, people who I would assume to have vetted your company and then, finally, the TPG involvement.

You've pretty much done everything you can, in my mind. The only thing that hasn't followed ironically is the stock price. It went up for quite a while and then it's given back. I know that developers are under pressure in China but the irony is you've done, I think, everything you could do within reason and us as investors we're hoping to see higher stock prices. But that hopefully will come in the future. Thanks so much.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Thank you.

Operator

(Operator Instructions) We will go again to [Guy Daline] with [uCratos].

Unidentified Participant

Yes. Hi, it's me again. The question I forgot to ask you on last conference call. Given the help of TPG and you seem to have a very experienced CEO, management team, what about [gearing on] diversification a bit outside housing? By that I mean, why not niches like retirement homes, hospital, warehousing? Niches in the China economy where building is needed but where there's huge demand because there is of course not enough supply, unlike housing, where we can see from here and there perhaps too much housing being built. So my question is, are you thinking of doing that sort of diversification? I know you have started already with Sanya project, which is a vacation. But are there other sectors in construction where you could perhaps start some new business? Thank you for answering.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

We believe we are professionals of the real estate sector especially for residential development.

Unidentified Participant

Okay.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

And, of course, according to the government policy, we need to build some public facilities, like, say kindergarten or a school in our communities and also some small shops. So the public facilities that you are talking about is not required by the local government. And we don't have any plans to go into other areas because we believe that by developing residential and some of the commercial buildings is our expertise and it is something that we're doing good.

Unidentified Participant

Okay. I hope in the future, if you can do other projects like the Sanya project, that would be a very good thing. I think, anyway. Thank you very much.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Thank you for the suggestion.

Unidentified Participant

Thanks.

Operator

And there are no other questions in the queue at this time. I will turn the call back over to management for closing remarks.

Helen Zhang - *Xinyuan Real Estate Co. - Interim CFO*

Well, thank you very much for joining us today. If you have any further questions, feel free to contact us. Have a nice day.

Operator

And that concludes today's conference call. Thank you for your participation.

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