

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

**XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call**

Event Date/Time: Mar. 27. 2009 / 8:30AM ET

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Jacky Zhang**

*Xinyuan Real Estate Company, Ltd.*

**Yong Zhang**

*Xinyuan Real Estate Company, Ltd. - Chairman and CEO*

**Tom Gurnee**

*Xinyuan Real Estate Company, Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Kun Tao**

*Roth Capital Partners - Analyst*

## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Xinyuan Real Estate Company, Limited, fourth quarter 2008 and year end conference call. Today's conference is being recorded. At this time, I'd like to turn the call over to Mr. Jacky Zhang, with the Company, for opening remarks and introductions. Please go ahead, sir.

---

**Jacky Zhang** - *Xinyuan Real Estate Company, Ltd.*

Hello, everyone. This is Jacky Zhang at Xinyuan, and welcome to Xinyuan's fourth quarter 2008 earnings conference call. The Company's fourth quarter earnings results were released earlier today and are available on the Company's investor relations website at [ir.xyre.com](http://ir.xyre.com), as well as on newswire services. You can also download the slide presentation regarding today's earnings results from our website. Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions made under 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 [wheels] expressed today.

Further information regarding this and other risks and uncertainties is included in our registration and on 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 under the applicable law. Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will discuss the general business climate, comment on current operations and provide some perspective on the Company's long-term strategy and its plans in 2009.

He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will deliver the Company's financial results and provide some color on our results and our 2009 outlook. Following management's prepared remarks, we will open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and I will be translating his comments into English. Please note that unless otherwise stated, all figures mentioned in this conference call are in US dollars. Now I will turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Please go ahead, Mr. Zhang.

---

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

Hello, everyone, and thank you for turning up today. We made meaningful progress in the fourth quarter to position the Company to withstand the external market [focus], investing the [costs] in, while our financial results for the fourth quarter to [solve]. This,

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

next to the weakened demand for new residential new business across the industry, we have a strong cash position of \$193 million at the end of December 2008, with the progress the Company needs solid financial flexibility of positive cash flow.

In [February], the Chinese government is doing its best to stimulate the economy, and in particular, the real estate market. The government initiatives promoting growth, reductions in all payments on all occupied payments, a reduction in official interest rates and a reduction in [deep] tax, and a number of (inaudible), as well as broader monetary stimulus.

Our upcoming quarters, in addition to micromanaging fields, we are taking several specific actions to bolster our financial and competitive positions. First, in our current projects and cash flow generation, we are modifying our development schedules to meet demand, covering cash and matching demand, allowing minimal cash flow expenditures. In terms of future development opportunities, we intend to focus our efforts and resulting in our sixth straight (inaudible) to market, in particular [new things] are generating new development projects.

In (inaudible) and the central [closing]. We are going to [re-enhance] our core efforts [prototype] in developing small to medium projects in tier-two cities. This is how we are steering management in these markets. These projects are generally short-term in duration and regenerate greater head costs, all of which should help us better during this challenging economic time.

Fourth, internally, we will continue our effort to reduce our head costs. Lastly, we will continue to strengthen our management team. We have allocated qualified professionals under the [same] addition of Tom Gurnee as CFO, for example. We will welcome Tom to Xinyuan and his years of experience as Chief Financial Officer across several public companies. In this our financial oversight and all of our divisions to (inaudible) level. With that, let me again welcome Tom and turn the call over to him for comments.

---

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

Great, well, thanks, Chairman Zhang, and I want to thank you for a good presentation. Anyway, I want to talk to you in depth about the quarter, a little bit about the year and then give you the best feel I can for the future of Xinyuan in the next year. The results reflect some pretty large adjustments for impairment and percentage of completion estimate changes, so please bear with me. I'll try to explain as best I can, but I'll be happy to answer questions in the Q&A period.

Again, all of these are in US dollars, unless noted otherwise, as far as currencies. Okay, about Q4 2008, revenue was off 27% from the end of 2007, from -- sequentially, from September, I'm sorry -- from \$83 million in Q3 to \$60 million in Q4, mainly due to lower area sales rates.

The GFA, or gross floor area, sold in the fourth quarter was 60,300 square meters versus 84,500 square meters in the third quarter. The ASP softened a little bit in Q4 versus Q3, from RMB62 per square meter to RMB59.90 per square meter. That's down around 4% or so.

Projects in Anhui and Shandong finished up in the last quarter, while our three big, I call them tier 1.5 projects -- Suzhou, Kunshan, and Chengdu -- are just starting to come on-stream in a big way. There was a small 1.7 million negative impact from re-estimating projects under POC. I hope to get to explaining that a little later.

The gross loss, we had a gross loss. That's the news. And the gross loss of \$75.8 million compares to a previous quarter profit of \$18.4 million, and a 2007 Q4 of \$30.3 million. Obviously, there's some major adjustments in there. We -- as part of percentage of completion accounting, we re-estimated all projects, as per US GAAP POC method, which had several impacts, and let's start with Suzhou. Suzhou is the region with one of our projects, Suzhou International City Garden.

On Suzhou International City Garden, because the total project revenue is expected total less than the expected total project cost, we had to recognize under the POC method the entire eventual project cost loss of \$21.6 million in the current quarter.

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

We were also required to assess whether there's an impairment on Suzhou International City Garden project, which led to an additional charge to cost of sales of \$72.6 million in the quarter.

We performed an impairment analysis that determined the net book value of future cash flows was \$72.6 million below the carrying value of the asset. Finally, in addition to the Suzhou effects, we did make changes to other projects, although they were all profitable and expected to be profitable, and that resulted in a cumulative change to cost of sales of \$10 million.

Suzhou International City Garden was the only unprofitable project in our portfolio, and this is the first impairment of any kind in the Company's history, and based on current projections there should be no further impairments on the horizon. The adjustments were also cumulative, meaning that any change in the expected fortunes of a project is booked cumulatively in the quarter that the estimate is changed. So all of these adjustments are cumulative catch-ups.

These adjustments were all non-cash items, and I have included in the press release a brief tutorial on the percentage completion method, and I'd be happy to answer questions about it during the Q&A. Also during the first quarter, SG&A expenses totaled \$9.3 million, against \$13.5 million in the previous quarter. So expenses did come down a bit, mainly due to compensation expenses dropping on lower headcount, down about 900,000 quarter to quarter and about 100 people lower headcount.

At the end of February of this year, we're down to about 529 people, so we're down nearly 200 people in the last five months. Promotional expenses dropped 2.8 million versus the previous quarter. The market turned out to be somewhat inelastic and the Chairman paired back the expenditures on promotions during this time. Stock-based compensation also came down about 500,000 quarter to quarter. The net loss for the quarter totaled 77.5 million, versus a profit of 7.8 million last quarter and 8.2 million in Q4 2007.

All right, just a few comments about the total year. Revenue increased year-on-year 16%, from \$309.7 million to \$356.6 million, so we had a year-on-year increase. However, our gross profit, we recorded a gross loss of just over breakeven -- a 0.2 million gross loss -- versus a gross profit of \$101.6 million in 2007.

Now SG&A increased year-on-year from \$27.6 million to \$46.1 million -- 8.9% of revenue to 12.9% -- but that's mainly due to the fact that we went IPO, there's stock option compensation for the entire year, there's fees for the entire year, legal fees, SOX fees, et cetera, et cetera. We did see that go down quarter to quarter and we did see that trend continue. We've got many action items underway.

The net loss for 2008 was \$23.6 million, versus a profit in 2007 of \$45.7 million. So that's all I'm going to say about the year. Of course, I can comment more during the Q&A, but I wanted to concentrate more on where we are and where we're going. The balance sheet, as of December 31st, included cash of \$193.6 million. We have \$367.7 million of total debt and we had a gearing ratio of 43.5%.

The book value per share at the end of December was \$2.65, and that means per ADS the book value was \$5.30. We have \$524 million invested in property under development, currently being built, and a further \$102 million on the balance sheet for land acquired but vacant and not being developed at this time. So that's where we are on the balance sheet and where we are on land.

The outlook, I'd like to comment on the outlook now briefly, and first let me give a backdrop for the outlook. We have available GFA inventory. What mean by that is the projects currently under construction will eventually have gross floor area available of about 1.158 million square meters. That's what's available as of the end of December that will be available during that time, from December forward.

Of that, 489,000, the largest project by far that we'll have that's available for sale at future periods is Kunshan International City Garden, with about 489,000 square meters. And the second largest is Chengdu Splendid, which has 217,000 eventually available.

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

And the third is Suzhou International City Garden, at 179,000. Those three projects are all the tier 1.5 projects I had referred to earlier.

In addition to those, we have Henan Colorful Garden, with 145,000 square meters still available and Shandong International City Garden at 89,000. Despite having these inventories, we are staging our construction efforts to match the market, as the Chairman mentioned during his introduction. So we are both for the Kunshan and Suzhou completion dates, have been pushed out to 2013 from 2010 -- end of 2010, which was represented last year sometime. And Chengdu has been pushed out until the end of 2011 for a completion date. That compares to also 2010 at the last quarter.

We do have two parcels of vacant land. That would be Zhengzhou. What's it called? The alcohol project. There was an alcohol factory there, 278,000 GFA available. And in Chengdu, we have another parcel, 219,000 square meters. Both of those are fully paid, fully paid in cash, fully paid up, and therefore could be sources, if we so decide, to turn into cash flow in the near future.

We do have access to local funds for construction, if we need such. In Kunshan and Suzhou alone, we have about RMB600 million of borrowing capacity to finish those up. But we do not have a firm plan right now, as of this phone call -- we do not have a firm plan for another project to be commenced in the year 2009. That could change, of course, but as of right now we do not plan on that. So let me get to the forecast then itself.

In Q1, nearly over here, the GFA to be sold will total about 38,000 to 40,000 square meters, maybe a smidgen higher, versus 60,300 that we just recorded for Q4 2008. That's 35% up from Q4. Chinese New Year was the factor, but the market was also a factor. The GFA sales held up better in our traditional markets in Henan and Shandong, but with some discounting involved and ASPs generally are about 10% lower than two quarters ago than in the third quarter.

Revenue, we expect in the first quarter to be between \$40 million and \$45 million, off 25% to 30% from Q4 2008. ASPs again are lower than Q4 2008, approximately 10% down on Q3, but did vary, of course, by geography. Net income expected for the first quarter, we're cutting G&A expense, but we can't do it fast enough to avoid a loss in the first quarter. We expect a loss of \$2 million to \$4 million in the first quarter.

For total year 2009, we expect to sell gross floor area of about 260,000 to 290,000 square meters. Now, there is a faster pace obviously in the first quarter, but we believe the second quarter is strong, a lot stronger than the first. The third quarter is historically the seasonally the strongest period. So we expect, like I say, 260,000 to 290,000 square meters.

There is no assumption here of firming ASPs. Well, they're affirming, but they're not aggressive, not aggressively increasing. We do expect to continue to hold back the pace of Suzhou, Kunshan, and Chengdu projects, as I said earlier, finishing up in 2013, and we expect, as a result of these sales, we expect our revenue to fall in the range of \$225 million to \$250 million for the year. And we expect that to result in somewhere near breakeven. This is really a tough call because we have long ways to go in this market, but we expect somewhere around breakeven. That could potentially change for a few factors. We could accelerate the tier 1.5 projects. We could do that, but that's a separate decision.

We could develop the two break-up owned parcels, fully paid parcels, and we could theoretically look for project financing to generate cash out of one of our existing projects to start another one. Those are all options open to us.

Anyway that's the full force of my presentation and I'd like to throw it open now for Q&A.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

And we will go first to Kun Tao with Roth Capital Partners.

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

Good morning and good evening in China. My first question is, what exactly changed in your projections? Apparently, you postponed your percentage of completion of construction for some projects. Do you also lower your price per square meter for future projections?

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

Yes, that's exactly the cause. If you take a project -- let's take Suzhou and you stretch it out for a couple of years. Okay, you have additional cost for capitalized interest, so that drives cost little higher. But then on the revenue side, yes, we had lower ASPs because the ASP environment we are in now is not the ASP environment envisioned when that project was commenced.

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

So can you tell us how much exactly you lower your ASP from what price to what price?

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

No, because there is timing differences and all sort of things, but I think we're in the -- and just, I can send that to, I'm going to send that to you separately, but I believe it's down like 20%. We were in the 12,000 to 13,000 range towards the end of the project in the year 2010, and now we're in the 7,000 range ASP this year, going up to 8,500 -- just one moment, please. Suzhou International City Garden right now is about RMB7,000 to RMB7,200 per square meter and it rises to maybe 8,000, 8,500 next year. It was far higher than that in the projections. It was like over 10,000.

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

Okay. My second question is, so far what's your overall average percentage of completion in your construction and what's your accumulated pre-sale amount in dollar amount? Do you have that figure?

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

Let's see. Not off the top of my hand, but accumulated pre-sales, let me see here. Yeah, I've got it. He's asking about pre-sales.

So accumulated pre-sales of these projects listed is 681,000 square meters over 18,023 total project.

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

Hold on, it's 600?

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

Yes. Let me give you a couple, I will give you the largest projects. Okay?

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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

Okay.

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

So Kunshan, we've got, right now, we've got 489,000 left that we can sell, the total project was 500.5. So we've barely gotten rolling.

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

Okay.

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

We only sold 11.3. So we've got a vast majority in future ahead of us. The next largest was Chengdu Splendid, and it has 217,000 square meters to go and it started with 230.9 for the total projects. We have only sold 13 there. And then I will get you a full table of this later.

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

I understand. I can figure it out, how much you sold in terms of square meter, but what's your price? Or I might get wrong on the pre-sale amounts instead of getting your percentage getting your total square meter. So maybe you can give me the pre-sale, I can figure out myself on the --

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

I'm not sure I followed the question. I'm sorry, could you try that try again?

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

So I can figure it out the total square meter that you sold accumulated, but what's your pre-sale amount? Because I might use a different price versus your actual price sold.

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

Sure well. Well, I can give you the dollars expected. Actually, if I could give this to you in millions of RMB.

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

Yes.

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

Let me just make sure I've got the right numbers here. Just one second. Let me pick that up toward the end of the call. Can I?

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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

Yes, yes, no problem. Okay, just take your time. So another question is you just mentioned a little bit, you say you have -- I didn't hear it clearly -- you have line of credit in Zhengzhou for how much?

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

We'll get about 500 million to 600 million in, not in Zhengzhou, no, in Kunshan and Suzhou.

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

A line of credit 500 million to 600 million in RMB?

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

Yes, but what we basically saying is we have that borrowing capacity there. We've chosen not to draw it down, because when we draw it down it becomes restricted cash and you've got to spend it on construction, so we've chosen not to draw that down. It can be done when we decide to start driving construction at a faster pace.

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

All right, my last question, and I will go back to the queue. So I might have asked you that question before, but we have seen high senior management turnover, COO, CFO, all those things. So to what extent do you think your operation was negatively impacted by the turnover in 2008?

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

Would you like the Chairman to answer that, or do you want me to give it a try? We'll let the Chairman do it.

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

(Speaking in Mandarin)

**Jacky Zhang** - Xinyuan Real Estate Company, Ltd.

I am sure, I think -- I mean Chairman just won't averages on that. In a downturn of the market its probably as your comment, operating practice for the real estate developer in China, and need to cut the headcount in Xinyuan our cost will control. And actually the Company is going to strengthen its management team and hire and return among comparable persons and to replace the original persons at even a higher level, such as the original CEO and COO and to strengthen our management team.

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

Okay. So there is no -- you don't see any operational project being delayed or maybe execution some other things being impacted?

Mar. 27. 2009 / 8:30AM, XIN - Q4 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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

(Interpreted) Actually, after the IPO of Xinyuan and we really have hired a series of people, such as COO and CFO from Beijing. And the basic core team for Xinyuan's daily operating is mainly based on the General Manger in the subsidiary because he is in-charge of the real pre-sale activity and the promotional activity and can generate the cash flow for Company and of course this level is very stable.

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

All right. Thanks.

**Operator**

(Operator Instructions)

And we have no further questions in the queue, so I'd like to turn the call back over to management for any additional or closing remarks.

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

Okay. Well this is Tom Gurnee again. Kun, let me assure you I will call you on the phone after this, if you're still there. But thank you very much, ladies and gentlemen, for listening in, and we're pleased that you took the time to do so and we look forward to talking to you at the next quarter's meeting. Thank you.

**Operator**

This concludes today's conference. We thank you for your participation and you may now disconnect.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Financial. All Rights Reserved.