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Q2 2020 Xinyuan Real Estate Co Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Yong Zhang** *Xinyuan Real Estate Co., Ltd. - Co-Founder, Chairman & CEO*  
**Yu Chen** *Xinyuan Real Estate Co., Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Steven Ralston** *Zacks Small-Cap Research - Senior Special Situations Analyst*  
**Linlin Qian** *The Blueshirt Group, LLC - MD*  
**Alex Mak**  
**Shawn Xia**  
**George Guo**

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Xinyuan Real Estate Company's Second Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, we are recording today's call. (Operator Instructions)

Now I'll turn the call over to Julia Qian, Managing Director of The Blueshirt Group Asia. Ms. Qian, please proceed.

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### Linlin Qian *The Blueshirt Group, LLC - MD*

Hello, everyone. Thank you all for joining us on today's conference call to discuss Xinyuan Real Estate Company's financial results for the second quarter of 2020. We released the results earlier today. The press release is available on the Company's website, as well as from newswire services.

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### Operator

Julia, pardon me interruption. We are having trouble hearing your line.

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### Linlin Qian *The Blueshirt Group, LLC - MD*

On the call with me today are Mr. Yong Zhang, Chairman and Chief Executive Officer; Mr. Brian Chen, Chief Financial Officer; and Mr. Hongwu Zhang, Vice President. Mr. Yong Zhang will deliver opening remarks, and Mr. Brian Chen will provide additional details on the company's financial results and outlook.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provision of the U.S. Private Security Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's actual result may be materially different from expectations expressed today. Further information regarding these and other risks and uncertainties is included in company's public filings with the SEC. The company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

With that, let me now turn the call over to our Chairman and CEO, Mr. Yong Zhang. Please go ahead, Mr. Zhang.

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

Thank you, Julia, and hello, everyone. Thank you for joining our second quarter 2020 earnings conference call.

Our second quarter result reflected consumer housing consumption rebound and the economic recovery. We are on the path to catch up with the full year sales guidance, with total contract sales of the first half reaching around USD 1.18 billion and total revenue of the second quarter increasing about 126% from the first quarter. Recently in quarter 3, certain major projects such as Qingdao Longxi and Zhengzhou Xinyuanfu have successfully launched, so we are now holding a more optimistic view towards the full year sales results.

With recovery of sales and cash collection, we managed to further optimize our debt structure and improve liquidity position. Total debt and net debt kept going down, while the cash balance increased at the end of quarter 2. Moreover, the percentage of short debt reached record low level since 2017. We also managed to further expand our funding channel. Recently, we have issued offshore Dimsum bond.

The property management company also successfully completed its follow-on offering. Because we are confident in our long-term outlook as well as the near-term recovery, we will keep paying dividend again this quarter. It will be same as the previous quarter. We are proud of our persistence of paying dividends for the past several years.

With that, I will now turn the call over to our CFO, Brian Chen, who will offer more details on the financial performance. Brian, please go ahead.

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

Thank you, Chairman, and good morning, everyone, and thank you all for joining today's call. We hope that all of you and your families are safe and healthy during this tough time. Before I go through the detailed information, we acknowledge that this is a difficult quarter and some hardcore number in the quarterly revenue release. I do want to talk about at least 2 key points beyond this number. One, Xinyuan's revenue does had a strong recovery. Although the revenue recognition is a little bit left behind, our contract sales already like double-digit increase compared to the same time last year. Secondly, our cash position and our liquidity has solidly improved.

Now let me go into the detail. As Mr. Zhang just mentioned, we are on the path to recovery with sales growth year-over-year. However, the pandemic still caused a significant impact on the construction progress and the revenue recognition in Q2. This caused the top line decline on a year-over-year basis. In order to catch up, we've made good progress in major projects opening in Q3 and expected in Q4. For example, Qingdao Lingshan Bay and Zhengzhou Xinyuanfu project had presales in July and August, and the Beijing Tongzhou project is expected to launch in September. The construction has already begun actually.

We will continue to accelerate our progress in project openings, construction and will further improve our sales effort. We view the top line decrease only a temporary effect and expect the revenue recognition coming back to a normal level on a full year basis. In this quarter, we have further optimized debt structure. Our total debt was \$3 billion as of June 30, 2020. This is \$0.6 billion lower year-over-year. Short-term debt was \$1.2 billion, which is 41% of the total debt. This has been decreased from about 47% comparing to the last quarter end.

Comparing Q1, we have reduced our short-term debt by about \$197 million, and the total debt reduced by \$32 million. Moreover, our funding channel has been further broadened and diversified. Recently, we successfully issued offshore RMB notes or what we call Dimsum notes of total size around RMB 520 million. Our property management sector, which does list in Hong Kong last year under the code of 1895, also made its follow-on share offering with about HKD 127.2 million of net proceeds.

We also have a prime of RMB 3 billion onshore bond coder and has been proceeded by Shanghai Stock Exchange. The application of the creative funding had demonstrated the capability of our capital market operation and provide more flexibility on cash flow management. From a broader view, the industry remains promising. We are seeing very encouraging signs of the residential business in China. According to the National Bureau of Statistics of China, the total real estate investment reached about RMB 6.3 trillion from the first half of the year. And the urbanization rate reached to 60.6% in 2020 and expected to further increase in the year. We are very optimistic about the long-term growth potential of China's real estate industry and we believe Xinyuan, as one of the leading real estate developers in China, will emerge from this period of crisis with innovative business model and strong execution capability.

Now let me go through some key financials in this quarter. The contract sales, as mentioned earlier, of the first half of the year was about USD 1.18 billion, which is about 15% increase compared to same time last year. Total revenue recognition, at little behind, but still reached about USD 284 million this quarter, increasing 126% from the first quarter this year.

Gross profit for the second quarter of 2020 was \$19.2 million or 6.8% of total revenue. This gross margin has decreased dramatically from the previous quarters, but this is mainly because we made some prudent adjustments in considering the current market price affected by the epidemic and we reduced the expected selling price or the value of several projects. And this onetime adjustment resulted in a significant reduction of the gross margin of about USD 45 million. Without this adjustment, gross margin or normalized gross margin for this quarter would be 22.5%.

The SG&A expense was \$51.4 million compared to \$44 million for the first quarter. We strive to manage our costs prudently in order to

improve our operating efficiency. Net loss for the second quarter of 2020 was \$30.1 million comparing to a net income of \$19.8 million in the same quarter last year. Once again, if we normalize and adjust the onetime adjustment of gross margin back, we actually are breakeven and even have \$2 million to \$3 million profit, if we normalize that adjustment.

Now let me discuss the balance sheet. Our cash position and liquidity are solid. At quarter end, we had cash and restricted cash of about USD 1 billion comparing to \$933 million at the last quarter end. As Mr. Zhang mentioned, we will again pay dividend this quarter. Moving to our project update. Our overall asset position remains strong. Real estate properties under development was \$3 billion, and real estate property development complete was \$415 million. Total saleable GFA was approximately 4.3 million square meters, which would translate into around CNY 50 billion saleable value.

Most of our projects are located in the Tier 1 and Tier 2 cities. In our market, our projects are presale. So we expect to generate meaningful cash flow from these quality projects. We remain confident in the outlook. At this point, we still expect contract sales of the RMB 20 billion to RMB 22 billion this year. Notably, as Mr. Zhang mentioned, our Hong Kong listed property management company continues to perform very well. In July, we completed this follow-on offering and sold an aggregate of 50 million new shares of its common stock. The successful capital raise has provided us with additional resource and capital to pursue our future goals.

In the second half of 2020, we will continue to focus on improving our operating efficiencies, optimizing our debt structure and further improving the liquidity level of the company. Meanwhile, we will further strengthen our capital operations and explore more opportunities in the capital market in order to generate greater value for our shareholders and bond investors.

With that, let's open the call for questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And we will take our first question from [Alex Mak], a private investor.

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### Alex Mak

Hello? My name is [Alex Mak]. Can you hear me?

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### Yu Chen *Xinyuan Real Estate Co., Ltd. - CFO*

Yes, [Alex]. We can hear you loud. Clearly.

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### Alex Mak

Okay, good. Sure. Because I was late at the conference call, I just joined about 5 minutes ago, I missed the beginning. I have been long-term investors for over 10 years for the company. And I participated in the conference call in your Q4 of last fiscal year, about 6 months ago. And I don't know whether you recall at that time, I was the one who asked for a reduction in the company dividend, so that you have enough money to buy back more shares. So anyway, you did reduce dividend in the last quarter, Q1. As you know, the share price still remains so low and hasn't gone up at all. Obviously, it is a disappointment for me and I'm sure for a lot of investors as well. Especially when you look at the company's financial statistics, the company is valued -- the book value is about more than \$10. I believe it's about \$12 per share. But yet it's trading at around \$2. And as an investors -- I mean as a developer, while your focus is on the operation, the mixture, that the development is going on smoothly and making money, but, as an investor, we mostly focus on making sure that we are getting a proper return for our money invested in the company.

So anyway, just to quickly do it. I don't want to take too much of your time. Because your company has invested for more than 12 -- 10 years now in the New York Stock Exchange and, in fact, the IPO of the company was probably more than \$10 and today it's sitting at about \$2. So it just looks to me that there's either a lack of interest totally or the U.S. investors have no appreciations of the valuation of your company. So in light of -- for various reasons, maybe because the company is too small. Real estate development is so far away in China. They cannot really see here. Or maybe they have concern about corporate governance and approximately, of course, the U.S.-China trade tensions, a few of the company being delisted from the US. So my question now is, have you thought of maybe also

listing -- dual-listing of your real estate development in Hong Kong Stock Exchange, just like what you had done for your real estate development companies? Because over in Asia, as you have seen, your real estate management company has performed quite well in the market showing that the investors in the Asia can give more dual recognitions of your -- of the valuation of the company compared to the U.S. And based on regional example also, not just your real estate company, like companies like Alibaba or JD.com, they also have recently added their company listing to the Hong Kong Stock Exchange, and the stock prices has performed very well since then. So as an investors, myself, I mean, I'm pretty miserable to see the stock price remaining at \$2 because, obviously, something should be done.

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**Operator**

Pardon my interruption, caller. If you would please ask a question to the speakers.

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**Alex Mak**

Okay. So my question is two. Number one, would you consider adding the listing of your company to the Hong Kong Stock Exchange? And number two, how much of stock buyback has been done in the last quarter?

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

Okay. Thank you, [Alex]. Appreciate all these inputs. So quick answer -- first of all, I would like also want to acknowledge that we don't think the current share price reflect the company's true value. The dollar amount per ADS you mentioned earlier had the whole impact as our internal calculation. And Zhang even mentioned that just for the property management company got listed in Hong Kong alone, already had the market value of, for our share, which is 55%, already able to turn into about USD 140 million, while our total company only at what \$105 million, \$106 million. So I really see that a lot needs to be done.

So coming back to your question, the first question is that whether we are considering coming back or dual-listing in Hong Kong Stock Exchange. We are currently exploring all kinds of alternatives. This is 1 of them. We will provide some update and any time when we come to certain points, and when it is in compliance with the regulatory requirements, we will share this progress with our shareholders. Yes, but this is absolutely one of the alternatives that we are exploring for the moment. To increase the value, we are not saying that we give up the U.S. shareholder and the market. We will continue to improve for one thing our communication. We need to be out there with the shareholders. But also, we are going to reach out to the other institute and bigger investors to make better communication and tell a better story and tell who we are and what is the true value of this company to the New York or U.S. shareholder to improve the liquidity and confidence on the company. So there's a lot that needs to be done.

On your second question about the share buyback, we have the sufficient quota or loan got approved from the Board of Directors. We are actually looking at the opportunity in this area. For the last quarter, for various reason, we actually didn't buy back a significant amount. When we come to this call, we will look at this area more actively and looking for opportunity when time is right for the share buyback. With that, I hope I answered your question.

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**Alex Mak**

Yes. I'm glad you are exploring the listing option in Hong Kong as well because all I can say is that I'm a Chinese myself. The U.S. investors, especially institution, have no interest in a small company and a company so far away in China, because they cannot see it. And they also are being attracted to other companies like high-tech, technologies companies. Your company is a real estate company. So I would urge you to take a series of considerations to do the same thing as what you have done for your property management operations. Because it have been 10 years in the U.S. exchange. Why will you want to continue on with not giving anything about? If I sell a product in New York, and nobody wants to buy it, obviously, I'll take that product to somewhere else and sell, right? Promising?

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**Operator**

Pardon me interruption, [Alex]. We do need to move on to the Q&A session. And next, we will take a question from Steven Ralston with Zacks.

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**Steven Ralston Zacks Small-Cap Research - Senior Special Situations Analyst**

Could you help me understand the impact of COVID-19 on Xinyuan? And could you narrow your scope of the question to the primary area where you're developing in Zhengzhou? It seems that 40% to 50% of your construction projects are and have been. And so I think you

probably have a better feel of what's happening there and it will be less impacted by other regionalities. What is the impetus for the slowdown in sales? Is it because of potential customers are delaying their purchasing decisions or is it because of the delay in the completion of the projects? Or is there some sort of impact to the disposable income of the potential buyers? Could you just help me understand that?

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

Sure. Thank you, Steve, for being with us on the call. First of all, the impact of the COVID-19 is really coming from all of those areas that you were talking about earlier. Let me start one by one. First of all, when the COVID-19 happened in pretty much all months in Q1 and the business are not really coming back until the second half or until rather the end of the Q2, a few things happened. First thing is that the sales office was closed for months. So our customer and potential customer, they pretty much stayed home without able to go into the sales office and understand the property let alone to finish those procurement activity and mortgage activity with the banker. So that's one.

Second is because all the construction activity was forced to cease, the subcontractor cannot start the work. In China, without construction coming to a certain point, we are not allowed to or you won't be able to apply for the permit to do the presales. So legally, you are not allowed to sell. Last but not least, because when people just walk out of the lockout, they're still not sure whether we fully walk out of this. People still know about the big-ticket item, acquisition. So overall, although we see the sales recover and happen, but this has really happened at the very end of the Q2, middle or the end of Q2.

So although we recognized a lot of contract sales, but the revenue recognition normally has some time likely high, which caused the revenue recognition and the gross margin and the profit on the books that kind of looks bad. But the good thing is that we had big sales for 2Q. And with the activity coming back, with the pending demand going to release in the next few months and quarters, we are confident that the company as well as our peers can walk out of this epidemic and achieve the annual goal by picking up what we lost for the first half of the year in the second half.

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**Steven Ralston Zacks Small-Cap Research - Senior Special Situations Analyst**

Let me just try to rephrase that and see if I understand it correctly. Now recessions really don't happen in China that often. You've been on a good growth path for years. But it seems like you're saying there's a pent-up demand and it's not like a recession. It's just that the sales have been delayed. And you expect this pent-up demand to return once the restrictions of COVID-19 are reduced, and that then you expect to come back to your growth path?

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

Yes. That's what we are talking about. We see optimization and we see middle class growth as well as because Xinyuan focus on targeting our market in the Tier 1 and Tier 2 cities. In China, typically, we are not that worried about the demand. The demand is always there. What we are worried about is that you don't have sufficient property that come to that critical point that you can attain a presales permit. Normally when we obtain the presales permit, we can achieve the sales goal really within the time period. So with all the land at hand and with the resource and with our partner ready to make sure that we have sufficient inventory to sell our high demand property sale to our target customer, we believe that whatever loss in the first half of the year the demand is always there. It's just a timing that those sales got postponed to the second half of the year on top of what is the reasonable normal demand there naturally in the second half.

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**Operator**

And next, we'll take a question from [Shawn Xia], a private investor.

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**Shawn Xia**

Hello? Can you hear me? Hello?

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

Yes, [Shawn]. Thank you.

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**Shawn Xia**

First of all, I want to begin by thanking your Chairman and Board members and as well as all the employees of Xinyuan for the hard work during this pandemic. So I have 3 questions. My first question is, I saw Xinyuan file to issue CNY 3 billion bond in Shanghai Stock Exchange, about USD 450 million equivalent. The bond got a credit rating of AA. So what would be the expected interest rate on those bonds? And is Xinyuan going to use more domestic financing going forward?

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

Thank you, [Shawn]. For the first question, typically, I would say that the rate would be around 8%, depending on the investor and depend on the specific timing, I would say that around 8% would be a reasonable range. Talking about whether we will have more financing from domestic, I would like to emphasize that, first of all, the company, it is on the path, we would like to deleverage it. We want to control the overall debt. So we would like to look into more opportunity to unlock the underlying value for the land or land bank that we already have. Don't forget that for the last few years, we raised a lot of debt. And in exchange, we had a lot of high-quality land bank at hand. So for the next 12 to 18 months, I would say that we are more focused on the operating activity, to have more positive cash flow from the operating. As a matter of fact, for the last 3 to 4 quarters, we already achieved very positive cash flow from operating. We will continue this path. In terms of the financing, we don't really had a strong preference whether that is overseas or domestic. We look at the specific timing. We look at the potential lender. We look at the opportunity and decide which deal fit in the best interest and provide the best benefits to the company. We will look at these 2 markets, onshore and offshore, at the same time.

**Shawn Xia**

Okay. Okay. Great. My second question is more about your individual projects. So previously, I recall, you mentioned in 1 of the investors conference call that some projects are delayed, some projects in the north got delayed, especially Qingdao project and Beijing project. And those 2 has very high average selling price and was delayed for a long time. You said the Qingdao project has already opened and is selling well, right? And so what's the current status of your Beijing project? And how is the Beijing and Qingdao project going to affect your yearly guidance? And is the company on track to meet your sales goal this year?

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

Yes. Thank you for that. Beijing and Qingdao are 1 of the few key projects or major projects that we are on the right track to launch and realize the value from. For Beijing, I'll just give you some context. Our average sales price per square foot for our property is around CNY 13,000 per square meter. For Beijing project, the sales price is expected about CNY 60,000 per square meter. So you can imagine it's quite profitable. And it can bring in sizable cash proceeds for the second half of the year. For that project, we already started construction earlier this month. And we expect to achieve the permit for the presales next month, middle or the late of the September, i.e. and probably not all the project going to be launched. And there is a portion of this. It will go phase by phase. For the Qingdao project, we already started presales for the first batch in July. Sales outcomes are pretty good, and the sales price averaged about CNY 20,000 per square meter. And some of the section, some of the wheeler are even higher, go as high as RMB 30,000 per square meter. So yes, these 2 projects are on the right track, will bring in sizable cash proceeds and high profit margin to the company.

**Shawn Xia**

That's great. So the company as of now is still relatively confident that if project goes well that you should meet your sales target, your guidance this year. Am I understanding this correctly?

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

Yes, that's correct. With these sizable land bank and about RMB 22 billion worth of the land bank available for sale for the second half of the year. And as mentioned in the release, first half of the year, we already achieved about RMB 8.3 billion. To meet the RMB 20 billion to RMB 22 billion target, we think we are pretty confident that we can achieve this goal in from the contract sales point of view.

**Shawn Xia**

Yes. That's great. I look forward to it. My third question is actually about your book value. So Xinyuan holds a lot of assets, mainly, you say, the land bank, properties and also your project under development. And obviously, as well as your subsidiaries, 1 of them is your Hong Kong listed property management. So obviously, Xinyuan record all your lands and properties and assets on your book based on historic prices or the cost when Xinyuan acquired them. So in the last few years, the real estate market in China is generally -- I mean,

both the land price and home price are on the rise. So based on the market condition, is it fair to say that the fair market value of Xinyuan's assets should be higher than what's showing on your book based on the accounting principles? I mean, based on my guess is maybe after the home price increase after a few years, my guess is Xinyuan's assets should be worth higher than book value. Do you think that's the right assessment?

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

In principle, yes, it is. And you know that Xinyuan is one of the very few Chinese real estate developers that's reporting under U.S. GAAP. So our inventory and the property held for lease they are all reporting on the book value, which is based on the historical cost basis. If you look at our balance sheet, we had like [USD 3.5 billion] (corrected by company after the call) worth of building in construction and the building available for sale. They are all sen at the book value. If you use the fair market value to look at it, we think we can add another 25% to 30% more value on those book value. Another thing is that we also have some sizable properties that we have for lease and plaza, some commercial properties. Our other peer developer company, they would actually already fair value them and share it again in their financial statement. Xinyuan is the only one that never doing that. We do the fair value on those probably heavily. Easily you can see RMB 2 billion to RMB 3 billion more fair value, that's for the product side and the commercial properties held for lease alone. So yes, you are right, in principle.

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**Shawn Xia**

Yes. When you say commercial property, you mean office building, shopping mall or parking lot or all of them?

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

More like shopping mall. More like plaza and shopping mall.

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**Shawn Xia**

Okay. Shopping mall. Are they mainly located in Zhengzhou or just where Xinyuan's past projects located, like Chengdu, Beijing, Zhengzhou, Xi'an?

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

As you mentioned mainly in Zhengzhou, Chengdu, Xi'an, in these areas. In China, in local big community, you typically need to build a small to medium to large size or the commercial plaza to add value to the residential. Yes, correct.

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**Shawn Xia**

Yes. And then after you sell the commercial ones you hold -- sorry, after you sell the residential ones you hold the commercial ones, right, as well as like the parking lot?

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

That's correct. Yes.

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**Shawn Xia**

Understand. Yes. Yes, that's my question. And also, I want to appreciate all the employees for their hard work during this pandemic. And I look forward to the future quarters.

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**Operator**

And up next, we'll take a question from [George Guo], a private investor.

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**George Guo**

Brian, I'm very surprised to see you have a such large increase in contract sales. Can you break down the quarter 2? How much sales and what the average price increase or decrease to the last year?

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

So give me a sec. Let me pull out the detail here. But I can give you some high level. So the contract sales recognized in the first quarter, most of them is coming from the Henan, Chengdu and Shandong and Guangdong area. The average selling price for these new contract sales is at about RMB 13,000 per square meter.

**George Guo**

Okay. But it's a large demand. What is the total contract sales on quarter 2 because you didn't break up between quarter 1 and quarter 2?

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

Overall, we had about RMB 8.3 billion contract sales for the first half of the year. Fourth quarter is about RMB 1 billion and RMB 6 billion to RMB 7 billion happened in the second, although majority of them happened in the last 1 week or 2 of the quarter.

**George Guo**

Okay. So that you predicted about the year to quarter profit will be similar to last year. So do you expect a lot of sales increase or more construction in the second half?

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

Yes, [George]. At this point, we still maintain the outlook that we can achieve between USD 60 million to USD 80 million profit, in line with what we had last year. Economically, this is a very challenging goal, although not totally impossible. The management team pretty much working 24 hours, trying to achieve this goal for the last 3 quarters. As you see that in the last month of Q2, we had a sizable contract sales. And we are going to increase the investment and funding in a lot of key construction, make sure that more and more of this project can meet the presales threshold and available to deliver the sales to the customer.

At the same time, as mentioned earlier that we have a few key projects like Beijing, Qingdao, Henan, Xi'an and Chengdu. We have broken down the sales target month-by-month, week-by-week and have specific people and team are on top of those targets. This is a really huge, challenging, aggressive goal, and we acknowledge that. But overall the whole company is strived and committed to try to make this happen. That being said, I have to put in a caveat that this is a challenging environment. The company still needs to try to balance between the liquidity and profitability, which means that we have more proceeds coming back from operating activity to mid and improve our liquidity. Sometimes we have to make passive decision to adjust the profitability. So we'll see as we go further along this path whether the net profit can still be met. At this point, we had a goal. We had an inner goal that we try to make it happen.

**George Guo**

Okay. That's very good. Last question for me is you mentioned something about new funding for stock purchase from Board of Directors. I didn't catch it. Can you repeat that again? Are you running low on the repurchase fund? Are you getting more funds?

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

No. At the beginning of the year, we did a big backhaul, granted approval from the Board of Director that authorized the management team to do the share buyback when is appropriate, when is at best timing. The management team are actively looking at the market condition every day. And we also need to strike a balance between our bond investor and the share investor. So we have at the management team's discretion, when timing is right, we can do it anytime we think it's right.

**Operator**

And we are at the top of the hour for this call. If you have more questions, please reach out to the company directly by e-mail. Let me turn the call back to Brian for closing remarks.

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

(foreign language) Okay. Thank you, operator, and thank you all for participating on today's call, and thank you for all your support. We appreciate your interest and look forward to reporting to you again next quarter on our progress. Operator, now we turn it back to you.

**Operator**

Thank you. And ladies and gentlemen, that does conclude today's call. We thank you for your participation, and you may now disconnect.

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