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XIN - Q4 2007 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Alex Gong** *Xinyuan Real Estate Co., Ltd. - Director of IR*

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

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

## CONFERENCE CALL PARTICIPANTS

**Michael Rosenthal** *QVT Financial - Analyst*

**Michael Lin** *Emerging Sovereign Group - Analyst*

**Jose Penabad** *SAB Capital - Analyst*

**Robin Poore** *WIGLP - Analyst*

## PRESENTATION

### Operator

Good evening and thank you for standing by for the Xinyuan Real Estate Fourth Quarter 2007 Earnings Conference Call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question and answer session. Today's conference is being recorded. If you have any objection, you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Mr. Alex Gong. Please proceed, sir.

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### Alex Gong - *Xinyuan Real Estate Co., Ltd. - Director of IR*

Hello, everyone, and welcome to Xinyuan's fourth quarter and full year 2007 earnings conference call. The Company's fourth quarter earnings results were released earlier today and are available on the Company's Investor Relations Web site at [ir.xyre.com](http://ir.xyre.com), as well as on newswire services. You can also download a short presentation regarding today's earnings results on our Web site. Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will discuss the real estate industry and business highlights for the fourth quarter and full year 2007. He will be followed by Mr. Longgen Zhang, our Chief Financial Officer, who will go over the Company's financial results. Following management's prepared remarks, we will open the call to questions.

Before we continue, please note that 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 result may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in our registration statement on Form F-1 and other documents filed with the U.S. Securities and Exchange Commission.

Xinyuan does not assume any obligations to update any forward-looking statements except as required under applicable law. I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Mr. Zhang will be speaking in Mandarin and his comments will be then translated into English. Please take note that unless otherwise stated, all figures mentioned during this conference call are in U.S. dollars. Please go ahead, Mr. Zhang.

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

(interpreted) Hello, everyone, and thank you for joining us today. As you can see from our press release issued earlier, we had strong fourth quarter and full year results and we extended our impressive overall growth for the last few years. For the full year 2007, we acquired nine parcels of new land with a total developable gross floor area or GFA of over 1.7 million square meters, launched six new projects with a total developable GFA of



over 900,000 square meters and completed construction on three projects with a total GFA of over 416,000 square meters. In total, our revenues were up over 117% for the year.

Our success has been influenced by China's booming economy which boasted a GDP growth rate of over 11% in the year of 2007 and the flourishing real estate market. From 2001 to 2005, total gross floor area or GFA of residential properties sold increased at a compound annual growth rate of over 25%, while average selling price of residential properties increased at a compound annual growth rate of nearly 10%.

China's Tier II cities in particular represent some of the most attractive real estate markets in this country. Tier II cities are experiencing growing disposal income, higher GDP growth and faster urbanization than Tier I cities. As disposable income levels and urbanization rates increase, a growing middle class is fueling the rise in residential housing demand. Our development strategy focused on Tier II cities and since 2006, we have rapidly and successfully expanded our network from one city to six cities, covering over 35 million -- excuse me, 34.5 million people.

As of December 31, 2007, we had completed 14 projects with a total GFA of over 1 million square meters and we had an additional 14 projects under construction or under planning comprising over 31,000 units and a total developable GFA of around 2.5 million square meters. Xinyuan is well positioned for expansion and we believe we can achieve stable growth by replicating our business model within strategically selected Tier II cities and by capitalizing on the abundant land reserves and the relatively low land acquisition cost they have to offer.

Recently, there has been growing concern over the uncertainty of the government's macro control measures on China's real estate industry. The Chinese government has enacted measures to cool off the real estate sector, implementing a 20% idle land tax for land which remains idle for more than one year, revoking land use right for land left idle for more than two years and tightening the availability of credit.

We believe Xinyuan's unique focus on rapid asset turnover and our efficient, scalable and asset-light business model with zero inventory will help minimize the effects of policy changes and distinguish us from competitors who hoard idle land. In addition, we recently signed a strategic cooperation agreement with China Construction Bank to provide us with real estate development loans and to provide our customers with mortgage loans. We will continue exploring alternative financing methods in an effort to minimize the effect of the government's austerity measures.

Xinyuan's proven operating history and strong year-to-year growth demonstrate the success of our business model. Building on this success, we achieved a significant milestone in December when we became the first Chinese real estate developer to list on the New York Stock Exchange. Despite the difficult timing of our IPO which came during the U.S. subprime mortgage crisis and followed by the Chinese government's austerity measures, we were able to enjoy a successful listing and build our corporate image within the international investment community.

Moving forward, as a public company, we are committed to corporate governance best practices and to increasing our shareholder value as we continue our goal of meeting the strict regulatory requirements of the New York Stock Exchange and the expectations of our shareholders. Now Mr. Longgen Zhang, our CFO, will walk you through the contributors to our fourth quarter and full year 2007 results.

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

Thank you, Mr. Zhang. Hello, everyone, and thank you for listening to our call today. As a reminder, all of the following numbers are stated in U.S. dollars. Please note that certain figures we will talk about are non-GAAP, including all figures -- all measures that are given excluding share-based compensation expenses. You can find a reconciliation of these figures in the financial tables at the end of our press release. I am pleased to report that Xinyuan posted strong growth in the fourth quarter and the fiscal year of 2007, with significant increases in total revenues, net income and operating margin. We would first like to take you through some highlights from our fourth quarter before moving on to our fiscal year 2007 financials.

Total revenues for the fourth quarter were \$91.4 million, an increase of 114% from \$42.7 million for the same quarter in 2006. The increase was primarily due to higher sales volume and sales prices during the fourth quarter.

Cost of revenues were \$61.1 million for the fourth quarter in 2007, an increase of 87.7% from \$32.6 million for the same period of last year. The increase resulted from high land acquisition costs and high total construction costs due to expanded sales volume of new property projects

launched and sold in the fourth quarter. The fourth quarter included favorable adjustments of approximately \$3 million to the cost of revenue, which was caused by a change in management's estimate of future revenue after considering the actual market conditions.

Selling and general and administrative expenses amounted to \$13.8 million for the fourth quarter of 2007, a substantial increase from \$2.7 million for the same period of last year. The increase was primarily attributable to increased selling and marketing activities to promote new projects and the increased salaries of new employees, stock awards amortization, professional fees and recruiting expenses.

Operating margin for the quarter was 18% compared to 17.5% in the corresponding period of 2006. Excluding share-based compensation expenses, non-GAAP operating margin for the quarter was 22.9% compared to 17.5% in the corresponding period of the prior year.

Net income for the fourth quarter of 2007 was \$6.6 million, an increase of 81.1% from \$3.6 million for the same quarter in 2006. I would like to point out that compared to the third quarter, revenues and net income were down due to the timing of Xinyuan's project launches and to the seasonality of the real estate industry. Typically, the third and second quarters provide the most revenues, with the fourth and first quarters seeing reduced buying activities.

As a result of a waiver of contingent conversion option contained in the Series A convertible preference shares, we recognized a one-time non-cash deemed dividend in the fourth quarter of 2007 of approximately \$182 million, which reduced our basic and diluted earnings per share for the fourth quarter 2007 by approximately \$1.58 and \$1.58 respectively. Basic and diluted losses per share amounted to \$1.53 and \$1.53 respectively, and basic and diluted losses per ADS amounted to \$3.06 and \$3.06 respectively. Each ADS represents two ordinary shares.

Now, I would like to move on to our full year 2007 financials results.

Total revenues for the fiscal year 2007 increased by 117.6% year-over-year to \$309.7 million from \$142.4 million.

Operating margin for the fiscal year 2007 was 23.9% compared to 19.4% for the fiscal year 2006.

Net income for the fiscal year 2007 was \$42.5 million, representing 163.8% increase year-over-year. We recognized a one-time non-cash deemed dividend in the fourth quarter of 2007 of approximately \$182 million, which reduced our basic and diluted earnings per share for 2007 by approximately \$1.67 and \$1.67 respectively. Basic and diluted losses per share for the fiscal year 2007 amounted to \$1.31 and \$1.31 respectively. And basic and diluted losses per ADS amounted to \$2.62 and \$2.62 respectively.

Common shares used to calculating basic and diluted losses per share increased in the fiscal year 2007, mainly due to approximately 2.1 million new common shares, equivalent to 1.05 million ADS calculated on a weighted average basis, issued and sold by the Company in its initial public offering in December 2007.

As of December 31, 2007, Xinyuan had cash and cash equivalents of \$357.6 million, as compared to \$66.9 million as of December 31, 2006. The increase in cash and cash equivalents was primarily due to approximately \$262 million in net proceeds from the Company's initial public offering in December 2007.

Moving to guidance, while our 2007 results are in line with the Company's expectations, we have determined that providing forward guidance at this time is not prudent, due to existing uncertainty related to the current regulatory market in China. Specifically, the way in which recent austerity measures tightening the availability of credit may impact our future financial results and ability to predict the same. With a strong balance sheet and disciplined land acquisition strategy, Xinyuan remains well positioned to manage and minimize the impact of such measures. The Company plans to consider providing forward guidance if or when the current environment becomes more clear and its future operating results become more predictable.

Before moving on to our questions, I also wanted to mention that, as far as we know, we have not as yet been negatively impacted by the economic slowdown and the related events witnessed in the U.S., particularly in the U.S. real estate market, given that all of our revenues are derived from

the Chinese market. Moreover, we continue to benefit from strengthening renminbi, given that virtually all of our revenues are in renminbi and our translated into U.S. dollars for financial reporting calculations. At this time, we are happy to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS)

Your first question comes from the line of Michael Rosenthal with QVT Financial. Please proceed.

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**Michael Rosenthal** - *QVT Financial - Analyst*

Hi. Good evening, everyone. Could you please talk about, I guess, where your cash is currently sitting and if you have had any issues in terms of repatriating funds and getting safe approval to do so?

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

Cash (inaudible) I think you are talking about IPO money. We raised the net proceeds of IPO money of \$262 million and we already moved \$160 million inside United States, changed to renminbi currency, and the rest of them we will move in this week. I think by the middle of this month, we would finish every -- we will move all the money, IPO proceeds inside, and translate it to renminbi through China domestic, yes.

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**Michael Rosenthal** - *QVT Financial - Analyst*

And so, you haven't had any trouble doing that?

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

We didn't have any.

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**Michael Rosenthal** - *QVT Financial - Analyst*

You mentioned the relationship with China Construction Bank and then you also mentioned that you are unable to give guidance because of uncertainty about how bank financing, et cetera, will be affected by macro controls. From what you are seeing now, are you having any difficulty securing bank loans for any particular projects or are there any limitations on your ability to use the funding that you have secured?

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

(interpreted) Starting October last year, the Chinese Commercial Banks have tightened the credit. And for Xinyuan, we signed the strategic cooperation agreement with China Construction Bank in the past January. There are over 10,000 developers in China and only a few of them -- only a small portion of them are listed companies and for Xinyuan, we enjoy AA credit ratings with both CCB and CIBC. Therefore, the tightened credit will not have a much effect on Xinyuan's operation for this year. But as the management of Xinyuan, we will watch closely the cash flow and the sales monthly, quarterly and maybe on an annual basis to try to avoid any problems that could be caused by the tightened credit.

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**Michael Rosenthal** - *QVT Financial - Analyst*

Okay. And then lastly, I guess some developers are reporting, and I guess the government figures are also showing that transaction volumes are down. And I guess, in some cases, pricing has fallen in certain, I guess, primarily first tier cities. Can you talk about the timing of your auction, when you look to purchase properties at auction, whether there is a seasonality of that. And then how long it takes do you think for these macro control measures and the struggles of some of the other developers in terms of cash flow to impact the pricing such that there may -- your margin can be maintained or improved?

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

(interpreted) Since last October, the Chinese government adopted the austerity measures. And since then the sales volume and the sales price for the Chinese real estate industry have both declined, but that's mainly for Tier I cities. In Tier II cities, the impact of the austerity measures was not as significant as that has on the Tier I cities. And for the fourth quarter, I should say Q4 '07 and for Q1 '08, basically speaking for these two quarters, they are just -- historically they are slow seasons for the residential property market in China. And we believe that, at this moment, it is premature to predict the sales volume or sales price for the '08 whole year level.

And for the tightened credit measures, we believe it has a significant impact on the smaller developers in Tier II cities. When we say smaller developers, we mean the developers rent out of the top-ten in a given city. And we believe these measures will have negative impact on their cash flow and on their land-hold positions. So basically, they are now focusing on the projects under construction instead of new projects. And we believe this recent regulatory development and the adjustment in the industry represent a good growth opportunity for the listed developers and top-ten large scale developers in China.

Here we give you an example of Tier II cities, some numbers for Tier II city sales. In the year of 2006, the total units sold in Tier II cities in China was about 2.23 million units. And the units sold in '07, it was 2.5 million units. And for '08, we don't see any major change for the trend. And for Xinyuan, for last year, our total units sold were 9,300 units and that accounts for only a small portion of the total market share and we believe for '08 and next year that we have a better growth opportunity for us to gain -- to gain market share.

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

Thank you. Let's move on.

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**Operator**

(OPERATOR INSTRUCTIONS)

Your next question comes from the line of Michael Lin with Emerging Sovereign Group. Please proceed.

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**Michael Lin** - *Emerging Sovereign Group - Analyst*

Hi, I was wondering if you could give us an update about how some of the most recent launches are going. For example, I think in your prospectus, you had a couple of projects which launched November 15th, Chengdu Splendid was supposed to launch January 15th, and then in the prospectus, you had a couple of launches March 15. If you could just give us an update on how some of these recent projects are going, that would be great.

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

(spoken in Mandarin)



I think at Jinan, the project we launched in Jinan, I think the International City Garden in December is very, I think -- you see the news release, is within one week, we almost sold more than 30%. It is very good. And also, for now Chengdu, we supposed to launch in December and due to, I think, the construction reason, I think we are now delayed to February to launch. And so far, we accumulated -- we still accumulate the customers and within to pre sell, starting pre sell at the bigger stage. And so far I think except Chengdu, the project that will delay on the pre sales, most projects right now, all the projects right now are on the stage.

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**Michael Lin** - *Emerging Sovereign Group - Analyst*

Okay, thanks. I had another question about operating costs. I think the Company had talked a little bit about wanting to maintain operating cost to 6% of revenue, roughly 3% for selling and distribution, 3% for G&A, and it looked like fourth quarter and full year, there was a lot of operating cost increases in the fourth quarter. Can you talk about whether or not there were some one-time things in that and do you think you will be able to maintain your three by three plan that you have talked about?

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

Mr. Lin, I think it is good question. If you look over 2006, our operating expenses only accounted for 4.6%, and this year 2007, we almost accounted for 8.9%. I think, as you can see that selling expenses -- selling and marketing accounted for 3.4% and G&A expenses accounted for 5.5%. I think the major reason is because we hired, for example, for the sales and marketing because we expand into new cities, and so the sales and marketing expenses is almost accounted for 2.55%.

And for the G&A, 5.5%, of which the new employee salary is accounted for almost 1.83%. The stock option amortization is almost 1.5% and also it has the professional fee and also the recruiting fee. As I say that it's the [S.O.] revenue rapid growth in the future because of our operating expenses, 30% is fixed costs and 70% is variable cost. We think in 2008, that percentage will go down. And in the future, yes, we are targeting 6%. That answered your question?

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**Michael Lin** - *Emerging Sovereign Group - Analyst*

Yes, that's great.

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**Operator**

Your next question comes from the line of Jose Penabad with SAB Capital. Please proceed.

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**Jose Penabad** - *SAB Capital - Analyst*

Hi, guys. Thank you for the call. Great quarter. I just wanted to follow up a little bit on some questions that were asked before. And primarily, we are two months into the year, it sounds like from the answers you gave before that things are tracking at least in line or maybe a little bit better. Can you guys give a little bit of color in terms of how January and February this year have tracked either versus your plan or versus last year, just to get a sense of how the year has started, relative to Q1, recognizing it is a slower quarter?

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

(interpreted) First, the 2007 results are in line with the Company's expectations. And as for Q1 this year, year-to-date, the operation is in line with our [guidance] that we made at the beginning of this year. And we will release our Q1 results after this quarter ends. And as we mentioned earlier, for the residential property market in China, usually Q1 and Q4 are slow seasons, at least according to our observation on the market for the past ten years. And in terms of sales, usually Q2 and Q3 is the hot season.



**Jose Penabad** - SAB Capital - Analyst

Great, thank you very much. Congratulations on the IPO and the great start.

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

Thank you.

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**Operator**

(OPERATOR INSTRUCTIONS)

And your next question is from the line of Robin Poore with WIGLP. Please proceed.

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**Robin Poore** - WIGLP - Analyst

Actually, thank you. My question was answered.

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**Operator**

As there are no further questions, I would like to turn the presentation back over to management for closing remarks.

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

Once again, thank you for participating in our earnings call for the fourth quarter and the full year 2007. We generated exceptional revenue growth over the year as we continued our expansion into new tier II cities, adding to our existing land bank and transform ourselves into the first-ever U.S. listed Chinese real estate developer. We are taking steps to counter the challenges presented by the government's austerity measures and we are confident our business model will allow us to manage the impact of such measures. We look forward to establishing and maintaining long-term relationships with all of you. If you have any further questions, please do not hesitate to contact myself or any of our Investor Relationship representatives. Thank you again.

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**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

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**Editor**

Portions of this transcript that are noted "interpreted" were interpreted on the conference call by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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