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# EDITED TRANSCRIPT

XIN - Q3 2012 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Helen Zhang** *Xinyuan Real Estate Co., Ltd. - Financial Controller*

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

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

## CONFERENCE CALL PARTICIPANTS

**Albert Jones** *Jones Capital Management - Analyst*

**Matthew Larson** *Morgan Stanley - Analyst*

**Bruce Oran** - *Private Investor*

**John Sheehy** - *Private Investor*

## PRESENTATION

### Operator

Good day, everyone and welcome to the Xinyuan Real Estate Company Ltd Third Quarter 2012 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the call over to Helen Zhang, financial controller. Please go ahead.

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### Helen Zhang - *Xinyuan Real Estate Co., Ltd. - Financial Controller*

Hello, everyone. And welcome to Xinyuan's third quarter 2012 earnings conference call. The company's third quarter earnings result was released earlier today, and are available on the company's IR website, as well as on Newswire services.

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

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

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will comment on current operations and provide some perspectives on the market environment. He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will provide some additional color on our performance, review the company's financial results and discuss our outlook for the fourth quarter and the full year 2012.

Following management's prepared remarks, we'll open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and I will translate his comments into English. Please note that unless otherwise stated, all figures mentioned during this conference call are in US dollars. I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Please go ahead, sir.

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

Hello, everyone, and thank you for joining us today. We are very pleased with our third quarter results as we met our revenue and profit guidance forecast. We provided last quarter contract of sales was stronger than expected, resulting in Xinyuan exceeding its contract sales forecast for the third quarter. Demand has been improving in our domestic projects as we have consistent sales as the improved purveying prices. The average selling price per square meter increased to percent of our last quarter.



We acquired the land parcel in Beijing and two US development project in the third quarter improving our project pipeline. We plan to acquire more lands parcels in China to strengthen our property portfolio and revenue pipeline for the next several years. We are pleased to complete the third quarter. We've done the payment in October and we continue buying back shares in the third quarter. We will continue to evaluate opportunities to maximize returns for our shareholders.

Xinyuan's third quarter financial results and additional achievements as well as (inaudible) catalyst to our future goals. We are well positioned in the real estate market with healthy balance sheet, exceptional management team and well-devised strategy to perform well in the market.

Now I would turn the call over to Tom Gurnee, our Chief Financial Officer.

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

Thank you, Chairman. First, a few summary comments. Our third quarter 2012 revenue and net income results progressed as expected and we're within the forecasted guidance range. While contract sales for the third quarter actually exceeded our guidance projection. Average selling prices continue to be solid as well with prices improving sequentially at the majority of our projects.

From a land acquisition standpoint we had a very busy quarter with four attracted land parcels acquired, two in China, two in the USA. Our cash balance rose slightly to over \$608 million despite spending over \$196 million on new land in the third quarter. With five new China projects and three new US based projects coming online at 2013 along with a very strong cash balance to be deployed on additional projects, we're excited by our growth prospects for the future.

However, with several act of development projects winding down this year, a lack of sellable GFA inventory will have some short term effects. Let me provide some color on all these points. First contract sales, contract sales in third quarter at \$230 million fell short of last quarter surprising \$258 million figure but compared favorably with the guidance estimate of \$215 million to \$225 million.

As you can see from the project status table in our earning's release, hopefully, you have that in front of you, issued a short time ago, all but 4 of our 10 active projects this year are over 90% sold. While strong sales are indicative of continued improvement in China's real estate market, we're left with diminishable inventory going forward, at least until several new projects come online.

ASPs on a sequential basis meanwhile were generally solid. Zhengzhou Modern City prices rose 2%, Royal Palace 3%, and while Kunshan increased the prices 3% as did Xinyuan Splendid, the others were virtually unchanged.

And our revenue under the percentage completion method totaled \$226 million. This compares to our third quarter guidance range of \$225 million to \$235 million, so it's in the range. Two factors diminished our ability to exceed the quarterly revenue forecast. Number one, we encountered an unexpected geological base of partial mud and partial bedrock on a few building sites at the Xinyuan Splendid project, this led us to redesign our piling program to perform more testing.

This led to delays which in-turn led to lower than expected percent complete for that project. Factor number two is our Xuzhou Colorful Garden Project where we encountered some roof leakage issues as we prepared to deliver to customers. We chose to delay delivery until the situation is fully rectified and we ultimately delivered the last of the buildings on November 3rd. However, we did incur contractual late delivery penalties and we did provide for possible purchase contract cancellation.

Gross profit, third quarter gross profit totals \$66 million or 29% of revenue versus last quarter at \$78 million and 30.6% of revenue and a year ago \$64 million and 29.9% revenue. The sequential drop in margin from Q2 to Q3 was entirely due to changes of estimates under the percentage of completion method, which totaled \$7.6 million positive in the second quarter and \$0.3 million negative in the third.

This negative changed the estimates was largely due to \$3.7 million of accrued delivery penalties at Suzhou Colorful Garden described just earlier. This was partially offset by favorable changes to Suzhou and Kunshan project estimates on better and expected ASPs.



Net income, net income in the third quarter totaled \$31.9 million versus \$69.4 million last quarter and \$31.2 million in the year ago third quarter. Our guidance range had been \$30 million to \$33 million, so we were slightly above the midpoint.

The sequential change can be attributed to three main factors; revenue was exceptional in Q2 exceeding Q3 by \$27 million. The change in estimate swing as I told you were between \$7.6 million and \$.03 million negative was \$7.9 million total. And finally Q2 included a once-off \$26.6 million tax liability reversal which at the time we said would not reoccur.

Now I should spend some time talking about new properties that's the key thing this quarter. On August 9th, 2012 the company acquired the parcel land in Suzhou for purchase price of \$42.6 million. Based on the proposed development plan, the estimated gross floor is approximately 128,000 square meters.

On September 29th, 2012, the company acquired partial land in Beijing for a total consideration of \$162.4 million. The total site area, 57,900 square feet and estimated four areas is approximately 130,000 square meters. These two acquisitions bring the number of projects under planning in China to five and all our schedule to commence presales in 2013.

Also in the third quarter of 2012, the company acquired two projects in the United States, the company paid \$10 million to acquire 15 finished luxury condominium units in Irvin, California and acquired a 92,000 square foot parceled land in the Williamsburg neighborhood of Brooklyn, New York for consideration of \$54.2 million, on which we 216 condominium units are planned to be filled with net sellable floor area of about 400,000 square feet. These two acquisitions bring the number of projects under planning in US to three clearly which are admittedly small.

The USA properties will be accounted for into the US GAAP full accrued method, not the percentage of completion method used on our projects in China. This is because the USA projects do not satisfy the percentage of completion certainty of collections criteria, thus we expect the Brooklyn project for example to contribute to revenue in 2014 when expected to be deliver.

For the past nine, okay, another mega-trend for the company is that for the past nine months, the company has been focusing on direct negotiations with certain prudential land bureaus for multi parcel land deals rather than concentrating exclusively on single parcel arms length auctions. Due to a scarcity of successful land auctions in the last two years, land bureaus in some cases do not have the resources to prepare parcel for sale or auction and they need financial and/or assistance from developers to do so.

We have signed three framework agreements with land bureaus thus far, whereby we will advance anywhere from 20% to 50% of agreed upon parcel value, two to six months before the targeted sale date and is either applied to the final sale transaction when completed or if unsuccessful auction we will recover the advance along with the interest of 10% per annum. Other developers have been applying this tactics for several years, this is our first 4A.

So, far just in the fourth quarter of 2012, we have signed three framework agreements we were very close on another and we have made two deposits against these framework agreements totaling \$32 million. Final transactions are due to take place in Q1 and Q2 of 2013. And I must address the Xinyuan will continue with arms length auctions as it has been doing when and where they make sense.

A few comments on the balance sheet, as of September 30th of 2012, the company reported \$609 million in cash and including cash equivalents and including restricted cash, this compares to \$605 million as of June 30th 2012, so an edged up by \$4 million.

Total debt outstanding was \$251 million an increase of \$22 million compared to \$229 million at the end of the second quarter of 2012. The value of the company's real estate property underdevelopment at the end of the third quarter was \$632 million compared to \$635 million at the end of the second quarter of 2012. In the third quarter alone, the company made payments of \$160 million related to the Suzhou and Beijing Chinese land acquisitions with an initial \$63 million payable on these purchases in the fourth quarter of 2012.

So, these purchases have \$63 million remaining to be paid. Also in the third quarter, the company made payments of \$36 million on its Irvine, California and Brooklyn, New York project acquisitions, while incurring short term debt of \$29 million on the Brooklyn project.



In Summary, in the last 12 months we've spent cash of \$331 million on land acquisitions and yet we maintained a cash balance of \$609 million as of the end of the year, we're very good shape going forward.

We'll comment on outlook, with several projects nearly sold-out, the company sellable inventory is expected to continue to decrease until new projects are bought online in 2013. The company expects contract sales in the fourth quarter of the 2012 to be in the range of a \$150 million to \$160 million. Revenue under the percentage of completion method is expected to range between \$140 million and \$150 million and net income is expected to be in the range of \$17 million to \$20 million.

For the full year 2012, contract sales are expected to be in the range of \$790 million to \$800 million and revenue under the percentage of completion method is expected to also range between \$790 million to \$800 million, while net income is expected to be in the range of \$140 million to \$143.

So, let's take a brief look past 2012. 2013 is shaping up to be a very eventful year, despite the fact that Zhengzhou Century East A will be coming on board in the first quarter, first quarter contract sales, revenue and net income are slated to be lower than Q4 of 2012 due again to a shortage of sellable inventory, but also mainly due to Chinese New Year, which is a huge challenge to the real estate industry every year.

The second quarter of 2013 should be up over the first quarter, if nothing else simply due to the recovery from Chinese New Year. But it's in Q3 and Q4 of 2013 where it should be exciting as four new projects in China come online bringing with them substantial sellable inventory.

Finally, 2014 looks to be blend, 2013 project starts will continue to grow and new land acquired be a direct negotiation and arms length auctions using our substantial cash resources will be introduced, plus our Brooklyn project will be delivered in the latter half of 2014. So, in short stay tune for rapidly accelerating growth beginning in the third quarter of 2013.

A few comments and shareholder values and then I'll wrap it up. As we reiterate it several times over the next over the last few years, our position is that a dividend once we establish it, should be maintained or expanded consistently over the long term, we plan on maintaining an attractive dividend foreseeable future.

We are pleased to have distributed quarterly dividend of 0.4 per ADS on October 30th 2012. And with the payout ratio of just 8%, there's lots of headroom here for expansion of dividends in the future.

During the third quarter, we purchased from the open market, \$1.2 million ADS for total consideration of \$3.2 million for an average purchase price of \$2.5 cents per ADS. As usual we stop buying ADS when our blackout period began on October 1st, that window reopens three working days after this call.

The weighted average fully diluted ADS is outstanding fell from \$73.5 million for the second quarter of 2012 to \$72.1 million for the third quarter. And the ending balance at the end of the quarter of fully diluted ADS stood at \$71.3 million.

Overall, we're very pleased with our financial performance in the third quarter and we're well positioned for growth in the future with our exiting project portfolio and with the new projects schedule come online at 2013 and the projects we expect to acquire.

This concludes my prepared remarks for today. And operator, we're ready to take some questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). And we will go first to Albert Jones with Jones Capital Management.

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**Albert Jones** - *Jones Capital Management - Analyst*

Hi, thanks for taking my questions.

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

Sure Albert.

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**Albert Jones** - *Jones Capital Management - Analyst*

Could you tell us a little bit about the New York Project, are you using the previous developers plans, it seems like the 216 units is what they were planning and they give us a square foot idea and possible of broad range for selling price of those units?

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

Sure. Well, first of all, I'll start with what it is, there's 92,000 square feet of land and that's entitled to 400,000 of sellable square footage. Yes, the reason is we had very large apartments, we're taking basically we're considering a two broad approach one we'll deliver that and we'll change the amenity situation and certain interior design, the pro forma for the projects were in fact geared in that manner. So, the project works with 216 units averaging 1,850 square feet per unit.

However, we will look into the possibility of getting perhaps a change in entitlement upward in the number units available, but we are prepared, we are prepared, we are enthusiastic to carry on with 216 units. Albert, I don't think I caught all your no answers, were there others?

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**Albert Jones** - *Jones Capital Management - Analyst*

No, that was pretty much what I was asking, do you anticipate any delay at all from the storm or is it pretty much you guys won't going to start until the spring anyway on that New York property?

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

I got a desperate call from my IR people during the storm asking what the condition was of our property and I told them we had to be a creative writer to write a press release about a piece of dirt because that's what it is, it's just a flatten site, it does have partial foundation in, the previous developer when bankrupt at that point.

And so, and we bought this from net holder. And so there's no damages the only damages defense that we had to put around it to keep me blocked and then we had to repair that defense.

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**Albert Jones** - *Jones Capital Management - Analyst*

Thanks. Another quick question about the arms length negotiations for new properties in China, does it look like being that you're going that route the actual price of the land could be slightly cheaper than what you were doing beforehand?

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

That's a factor, that's a factor, plus we can probably get more land banks over extended periods and give our pieces to develop as we go those are both factors. Look, we did not buy land for two years, so we buy land at the end of 2009 and we didn't buy again till the end of 2011. And during

those two years, we had the housing prices, success came into plan with a very uncertain market and the auction activity was spotty and there weren't very many attractive parcels.

Now, the auction activity is coming back a little bit as proven we have bought some properties, but it's not back where it was and so we feel we need perhaps a little bit more reliable source of finding land for the future.

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**Albert Jones** - *Jones Capital Management - Analyst*

That's fair enough. Did in fact earlier today in China, somebody did a presentation at the Bank of America Merrill Lynch conference, is that true?

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

Somebody made a presentation about my company, our company, no, we did do one on ones, we did this, I did about four or five one on ones there.

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**Albert Jones** - *Jones Capital Management - Analyst*

Okay, all right. That's it, your press releases are pretty thorough and most information's contained in there, so I don't have any more questions. Thanks.

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

Thank you, Albert. Thanks for asking the question.

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**Operator**

(Operator Instructions). And we will hear next from Matthew Larson with Morgan Stanley.

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**Matthew Larson** - *Morgan Stanley - Analyst*

Good morning. The question for you on the share buyback, it's always nice to see that particularly for companies trading below, it's, reported value, but why only just 1.2 million ADS, you seemed to have plenty of cash obviously and the stock price seems quite depressed relative to what its value could be longer term?

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

Yes. Well first of all, we have a blackout for the whole last month of each quarter. Well, I'm sorry, the first month of each quarter, so, all of our October was blackout. So, in this case all of April was blacked out or all of July was blacked out.

The other reason is we did deploy a couple of capsule, I'm not going to tell you what the number was, otherwise I give away our trading strategy, but we did engage a rough capital to make these purchase in the open market, but we put some caps on it and they had moved around so that's why we didn't deploy, more in that quarter.



**Matthew Larson** - Morgan Stanley - Analyst

Okay. And then secondly, this company which has been out for many years and frankly I'm, I'm significantly invested in the company, so I have, an interest in it.

But, I'm sorry, I've lost my train of thought, oh, if you look at the net cash on your balance sheet between your debt and your cash through this quarter not even counting me as such you own, the company trades at maybe 60% of the net cash, is that typical for a development company like your own or is it simply which I felt it to be the case is that so many US listed Chinese companies just kind of fall off the radar because of concern about, the validity of their operations and their cash balances because of the amount of frauds had been out there, but conversely there's been, in my count like 18 companies that have gone private in the last 12 months so that you're seeing kind of reversal of the fear that, correctly drove down prices.

But how does your company measure up with similar companies either listed over there in China or private companies as far as trading at the, what seems to be an extremely low level based on your metrics?

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

Well Matt, you hit the nail in the head, and I scratch my head on this one everyday and I have for the last two years. We're incredibly undervalued, we're valued at 1.5 PE ratio to 2 PE ratio where at 65% discount to the net asset value, we're at huge discount to book value, yes, we're trading less than cash. The reason is the kind of increase I get reading the message boards of course, everything you said it's true, there's the China malice and the frauds.

So, we've taken many steps to try to address that with investors and such for example, we do an announce cash audits by our internal audit team of about 15 different accounts every month. And we've implemented that for couple of quarters we really like that, we had good results of tightening up our procedures, but we have many missing money.

But there is, we do believe, we're just, perhaps an ignored stock and I'm trying to change that and there's, I think people worried about China etcetera, I think the real estate bubble concerns are over, I think real estate now is very solid, the housing price restriction took out over enthusiasm perhaps out in the market. So, I think, it's, I think concerns about a housing bubble in China are no longer a fear. I think now it's just people are investing in Chinese stock.

Now as far as cash, there's only a few ways we try to prove, there's a few other ways we can try and show what we really made up, we do paid dividend, we do stock buyback and we bought a lot of land and including The United States with some fairly large amounts.

So we have the money, we're deploying the money, we check the money, we're audited by us, young and have been for many years, we have very good relation with them. We're very solid company. I think we have a very strong balance sheet that put us in a position for some amazing growth I think in the next two years.

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**Matthew Larson** - Morgan Stanley - Analyst

Last question. The purchases that the company has made in the US, to me and I would assume other investors would give them a little more confidence that there are, there is money on the balance sheet because if you close on properties in the US the money has to be frankly spend here. On that note is it, I've understood it's not necessarily easy to take money out of China into the US, but do you run into problems with that as far as looking at future purchases here in the United States?





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

Yes, that's a very good question because it's a big factor here. We have too, if we want to deploy dollars, we deploy dollars for a few reasons, we pay dividends that's dollar, we do buy closure dollars and we're starting projects in the United States those are dollars. For the first two dividends and stock buybacks we're kind of on our own, we're going to have to pay those out of inter-company dividends, back-to-back loans.

For the project themselves, so far we've just financed some with just inter company loans, but what we are applying to do is to make an outbound investment through MOFCOM and through SAFE to go right through the front door to apply to make an investment oversees as the Chinese government has been encouraging. And so, we're in the process of making applications to replace those inter-company loans with direct investment from China.

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**Matthew Larson** - *Morgan Stanley - Analyst*

All right, thank you.

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**Operator**

And we will hear next from Bruce Oran, a private investor.

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

Hello, Bruce.

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**Bruce Oran** - *Private Investor*

Yes, hello. I was wondering whether -- I've got two questions, whether you're going to explore projects other than in China and US. And also I understand you can't reveal your buyback policies, but in view of this low shareholder value that we have right now, why are the caps that you employed limiting your ADS buyback so it's nearly to just then 1.2 million shares? Thank you.

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

Okay. Well, let me answer the first when you said about more US properties, we looked at --

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**Bruce Oran** - *Private Investor*

Both projects of the US and China?

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

Other than US and China.

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**Bruce Oran** - *Private Investor*

Yes.



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

I think we're stretched as far as we want to be stretched as far as management capability for a year or two. I think two countries are to be enough. To be honest we did get project to pass our desk from Korea, we got another one from Australia, but we resistant to temptation. So, we're going to stay with China as with the predominant amount all their money is going to go; most of our money is going to go to China obviously. And US is not going to -- we're still very much a Chinese real estate company.

And in fact even the US place or place on China because we hope to attract Chinese buyers of these units and we are selecting cities that we think will be attractive to Chinese buyers not that we'll sell all those buildings to 100% Chinese if they're going to buy, we can increase absorption by 20% to 30% by having Chinese buyers that would make projects very successful.

So, we are concentrating on cities where Chinese buyers we find them. And I don't know how to nuance your question about buybacks. We have a Board of Directors and they decide from time-to-time, this price is too low and that price is too high, I don't call all the shots all the time. We do.

We did complete our 10 million share buyback program last year, this year, we're continuing at pace and our cash balance remains where it is because we're buying lot of properties, but we generated a lot of cash flow last quarter, the last two quarter. So, we have a little more cash then we expected again.

So, I don't know how to answer that question perfectly other then we put a cap on as voted on by the Board of Directors not necessarily proposed by me. And we follow that and then we change the cap upwards, we change the downwards once and upwards once that's about all I can say.

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**Bruce Oran** - *Private Investor*

Okay. Thank you and congratulations on the good quarter.

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**Operator**

And we will hear next from John Sheehy, a private investor.

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**John Sheehy** - *Private Investor*

Hi, everybody. Thanks for hosting the call. I wanted to ask your largest block remaining inventories at the Xinyuan Splendid project, is the rate of sales of that project meeting your expectations?

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

Yes. I mean, it's not exceeding our expectations, but it's, now, I'm sure you would say Helen.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Financial Controller*

Most of pace is for October is yes, because we have the high-rise and low-rise and the low-rise (inaudible). It's supposed to start the presales in August. But as Tom as just mentioned that we have a high infield so the low rise, the presale for the low rise started late than expected by two months and that is why the overall sales for this project little bit below our expectation.



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

Yes. So it's really the mix of available product because of the technical problem. But the demand is there as we don't have the right mix of supply right now.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Financial Controller*

Yes. And just to give you an example that the sale tour on October actually was about \$195 million.

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

Yes, so that's over \$30 million in just October you say.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Financial Controller*

Yes.

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

Okay.

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**John Sheehy** - *Private Investor*

Okay. We are working at the, first that the most recent two quarters you sold about 80,000 square meters, so at that rate it would take you about two years to sell through the project?

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

That's correct. That's correct.

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**John Sheehy** - *Private Investor*

Okay. And then the new ventures that you announced the United States then moving into tier 1 city Beijing, I think that's very exciting for the company. Can you expect to be able to earn the same level of return on your investment in those new markets compared to what you've been earning today?

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

Yes, that is very convincing. Let me explain, in the US, the US project looks really good to us for profit, we are very happy. And the Beijing property has a little bit lower than a tier 3 cities where we are now because the kind of margins we're getting now on our tier two cities is was born from investments made two to three years ago and there been price increases in the interim. But Beijing is a little lower, but actually surprisingly higher than I expected.

So, our investment committee would look to it thoroughly and then our projections now particularly since the home pricing restrictions we don't assume and our performers any price increases overtime.

And so, using that we're still in the like 19% to 21% range gross profit on this project and that's with upside for price increases if they occur in the future. So, no, it's not a 30%, but it's not a 10% either, it's the solid 20% and it has upside.

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**John Sheehy** - - *Private Investor*

And you got a lot of favorable publicity on the land auction results right now. So, I think as you stated improves the brand then edge.

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

Thank you.

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**John Sheehy** - - *Private Investor*

I was just also going to ask since you bought the US parcel in Hong Kong announced the tax on foreign purchases or mainland Chinese purchases of Hong Kong real estate does that make you more excited about the US market, the potential for selling those properties to your Chinese purchasers?

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

No. I think it was attractive before, it's still attractive. Does that mean that we get Hong Kong people, who are we competing with the Canadians and the Australians and all that. But the people, it's interesting the people that are our customers for US, the reasons they do it are several. Perhaps the first is they think it's just a good investment because they think land is cheap in the United States right now particularly after the downturn and this is a good time to deploy money.

And their alternatives aren't very good right now because they can't buy apartments like they used to because of the housing price restrictions the stock market isn't performing in China, and the banks done pay much. So, US investments are attractive. So, that's probably number one.

Number two is, education for their children. Many, many Chinese want their children to be educated overseas. And they feel that they could get a better education overseas. The third might be healthcare, it's mentioned quite frequently by our potential buyers. And the fourth is possible immigration, but I wouldn't say immigration per say is the biggest driver, it's the others.

But immigration definitely is of interest and there is a lot of EB5 activity going on in the United States so that people don't want to move the United States can make investments and qualify the EB5 projects to get Visas. So all those factors contribute to why they go to the United States. I imagine different factors that drive them to Hong Kong.

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**John Sheehy** - - *Private Investor*

Okay. That's great, thanks a lot for all of that detail.

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

Thank you.

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**Operator**

And moving on, we do have a follow-up question from Albert Jones with Jones Capital Management.



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

Welcome back Albert.

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**Albert Jones** - *Jones Capital Management - Analyst*

Thanks. Just a quick question, how early or how late can presales start for the US property and is those timeframes different than in China?

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

Oh, hugely different, hugely different. In fact I made the comment in my prepared remarks here about different accounting methods you have to use that's the main reason. Because in China, an apartment buyer does the following, let's say you're buying your first PR, your primary residence.

You signed a contract you pay 30% down, then, within a month sometimes two but very shortly after purchasing you should get a mortgage. And when you have that mortgage, the bank remits the money to us. So we have full payment for that apartment.

However we do, as disclosed everywhere in our 20F and everything, we do provide a guarantee to the bank that that loan will be honored and of course we have this collateral, the 30% deposit and we have the apartment. So, we never lost any money on this so that's how buying, that's how buying is done in China.

Now, if you're buying your third apartment or whatever you can't get a mortgage so you got to pluck it down from your -- get it from your family or whatever. But for a primarily residence, you can get a bank loan. So, that's how they do in China. And in the US of course, I'm not that familiar with the US to be honest even though I'm American, I've never been in the real-estate business in US.

But I understand that yes, there are presale contracts but they're not particularly their deposits are very small. And the wiggle room to get out of them is substantial. And I've been advised by our accounting people that the prospects for collection are not sufficient to recognize revenue into the percentage completion method. So we will be using the full accrual method. And of course our pro forma, we don't count on much in the way of pre sales it's not a big cash item. In China pre sales is a huge cash flow item but it's not in the US.

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**Albert Jones** - *Jones Capital Management - Analyst*

Thanks for answering. That's great, and that's how Germany is doing great with this English.

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

Have you been on the previous calls?

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**Albert Jones** - *Jones Capital Management - Analyst*

Oh yeah, many times.

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

Oh good, okay. Thank you.

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**Albert Jones** - *Jones Capital Management - Analyst*

All right. Thanks.

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**Operator**

And with no further questions in the queue. I'll now turn the call back over to management for any closing remarks.

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

Well, thank you for the very thoughtful questions. We appreciate that and we appreciate you taking the time to call in. Good luck on the market today. And we'll talk to you next quarter. Thank you.

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**Operator**

And again, that does conclude this call. We thank everyone for participating today.

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