

# FINAL TRANSCRIPT

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## **XIN - Q2 2008 Xinyuan Real Estate Earnings Conference Call**

Event Date/Time: Sep. 02. 2008 / 8:00AM ET

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## CORPORATE PARTICIPANTS

**Lisa Wang**

*Xinyuan Real Estate - IR*

**Yong Zhang**

*Xinyuan Real Estate - Chairman & CEO*

**Frank Ng**

*Xinyuan Real Estate - CFO*

## CONFERENCE CALL PARTICIPANTS

**Kun Tao**

*Roth Capital - Analyst*

**Robert Fong**

*Merrill Lynch - Analyst*

## PRESENTATION

**Operator**

Good evening. And thank you for standing by for Xinyuan Real Estate Company Limited second quarter 2008 earnings conference call. At this time, all participants are in 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 objections, you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Ms. Lisa Wang, Xinyuan's Director of Investor Relations and General Manager of Strategy, Investment, and Finance Department. Please proceed, Ms. Wang.

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**Lisa Wang** - *Xinyuan Real Estate - IR*

Hello, everyone. And welcome to Xinyuan's conference call for the second quarter of 2008. The Company's second quarter earnings results were released earlier today. They're available on the Company's Investor Relations website at [ir.xyre.com](http://ir.xyre.com) and our news wire services. You can also download a short presentation regarding today's earnings results on our website.

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will discuss the business highlights for the second quarter of 2008 and the overall market situation in the real estate sector. He will be followed by Mr. Frank Ng, our new Chief Financial Officer, who will go over the Company's financial results and provide a business update. Following their prepared remarks, we'll open the call to questions.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. Further information regarding this and other risks and uncertainties is included in our registration statement on Form 20-F and other documents filed with the U.S. Securities and Exchange Commission. Xinyuan does not assume any obligation to update any forward-looking statements, except as required and applicable law.

I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Later, during the Q&A session, Mr. Zhang will speak in Mandarin and I will translate his comments into English. Please take note that unless otherwise stated, all figures mentioned during this conference call are in U.S. dollars. Mr. Zhang, please go ahead.

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**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

Hello, everyone. And thank you for joining us today.

As you have seen from our earnings release, the second quarter proved to be a challenging one for Xinyuan. As a result of tightened credit supply, the Sichuan earthquake, and a slowing buyer demand the overall weakening in market condition was more prominent than most developers had expected. Many consumers have taken a wait-and-see attitude and this has increased the amount of time needed to sell apartments. While selling prices have remained relatively stable in the six cities in which we operate, sales volumes have decreased by approximately 20% to 30% during the first half of 2008, compared to the same time period last year.

Despite these difficult times, we are happy to report that Xinyuan's first half 2008 operating results were much stronger than many of our peers. Our revenue grew over 117% and our net income grew over 115% year over year.

We are hopeful that somewhat healthier market conditions will return in the last four months of the year, which is seasonally the strongest period in the real estate industry. The recent significant improvements in CPI and its outlook should pave the way for the easing of monetary and fiscal policies later this year and next year. Although some of these changes may go into effect this year, the market may take additional time to recover and show signs of dramatic improvement.

Looking at our land bank, we continue to take a very cautious approach in our land acquisition strategy. We're not alone in this strategy as fewer developers are participating in land auctions while they wait to see whether land prices will become cheaper. Although we have no immediate plan to purchase land, we continue to carefully analyze the land market in the six cities in which we operate. When we find the right opportunities that meet our specified investment criteria, our good cash position and strong balance sheet will allow us to efficiently acquire land at auction and our rapid asset turnover business model will allow us to generate early cash flows.

To help spur sales and create additional cash flows during these softened market conditions, we have adopted and will continue to adopt, a series of measures including controlling costs and streamlining our business practices. We have also strengthened our incentive system for our sales staff. Our chief operating officer and I regularly travel to all of our subsidiaries to gain first-hand knowledge about the local market and offer management guidance in real-time. Our management team and staff are very enthusiastic in their desire to overcome the market difficulty and they are eager to deliver results.

Going forward, maintaining a strong balance sheet remains our top priority and we will continue to focus on improving our execution capacity and corporate governance. Despite the current market environment, we are still optimistic about long-term fundamentals of China's real estate markets. Our extensive experience and successful track record provide a good foundation for future expansion. We're also confident that our strong operating teams and solid capital base should provide us with the capabilities to succeed when the market turns around.

Before we go through the financial results in more detail, I would like to introduce and welcome our new Chief Financial Officer Mr. Frank Ng. As we mentioned in a recent press release, Frank comes to us with over 20 years of broader financial experience after having served in leadership positions with several well-known publicly listed property management and real estate development companies in China and Hong Kong. We are excited to add Frank to our management team and look forward to sharing in his extensive knowledge and experience.

Also, before we continue, we must note that our former CFO Longgen Zhang is also joining us on today's call. Longgen has been with Xinyuan since 2006 and his assistance with strengthening our financial and internal controls as we became a public company was valued. We are grateful for Longgen's service over the last two years and wish him well in his future work.

With that, I will now turn the call over to Xinyuan's new CFO, Mr. Frank Ng, who will give us an overview of financial highlights for the second quarter of 2008 and provide project and market updates. Frank, please go ahead.

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**Frank Ng** - Xinyuan Real Estate - CFO

Thank you, Mr. Zhang. I'm very pleased to be a part of the Xinyuan team.

Hello to everyone on the call, and thank you for listening today.

As a reminder, all the following numbers are stated in U.S. dollars unless noted. Please note that certain figures I will talk about are non-GAAP, including all measures that are given excluding share-based compensation expenses. You can find our reconciliation of these figures in the financial tables at the end of our press release.

Total revenues were \$87.7 million for the second quarter of 2008 compared to \$125.1 million and \$74.8 million for the first quarter of 2008 and the second quarter of 2007, respectively, representing a decrease of 29.9% and an increase of 17.2% from the first quarter of 2008 and second quarter of 2007, respectively.

The quarter-over-quarter decrease in revenue was primarily due to a 37% decrease in GFA recognized during the quarter from approximately 161,000 square meters to 101,000 square meters. This was partially offset by a 9% increase in ASP from RMB5,800 to RMB6,300 per square meter quarter-over-quarter.

The year-over-year increase in revenue was primarily attributable to increase of ASP recognized during the second quarter of 2008 versus the second quarter of 2007, which was partially offset by a decrease of GFA recognized. ASP's increased by approximately RMB1,800, or approximately 42% and GFA decreased by approximately 25.6% to approximately 100,000 square meters compared to second quarter of 2007 (corrected by the Company).

The increase in revenue from the first half of 2008 versus the first half of 2007 was primarily attributable to increased GFA and ASPs recognized during the first six months of 2008. GFA increased approximately 52.2% to 262,000 square meters and ASPs increased by RMB1,400 or approximately 32% compared to the first half of 2007. In addition, presale for the first half of 2008 were 265,000 square meters compared with 164,000 square meters for the first half of 2007. We remain optimistic regarding our sales performance in Tier II cities in which we operate, particularly in Zhengzhou and Jinan, where Xinyuan is already recognized as one of the leading brands among developers. Gross profit for the second quarter of 2008 was \$20.7 million, compared to \$36.6 million and \$27 million for the first quarter of 2008 and second quarter of 2007, respectively. The gross margin percentage for the second quarter of 2008 was 23.6%, compared to 29.2% and 36.1% for the first quarter of 2008 and second quarter of 2007, respectively. The quarter-over-quarter decrease in gross margin percentage was mainly attributed to the second quarter 2008 sales of newly launched projects of the Suzhou International City Garden and Zhengzhou Xinyuan Colorful Garden which generated lower margins due to higher land acquisition costs. The year-over-year decrease in gross margin percentage was attributed to the second quarter 2007 sales of Zhengzhou Central Garden West and Zhengzhou Central Garden East which generated higher gross margins due to lower land costs. Similarly, for the first half of 2008, the gross margin percentage was 26.9% compared to 40.6% for the same period in 2007.

Selling, general, and administrative expenses, SG&A, as a percentage of revenue increased to 14.2% compared to 8.7% and 6.7% for the first quarter of 2008 and second quarter of 2007, respectively. For the first half of 2008, SG&A as a percentage of total revenue was 10.9% compared to 8.1% for the same period in 2007. The increase was due to the increased selling and marketing activities to promote new projects, salaries, and other expenses associated with the addition of new employees, stock-based compensation amortization, and professional fees associated with the maintenance as a listed company on the New York Stock Exchange and under the rules governing the SEC.

Operating margin percentage for the second quarter of 2008 was 9.4%, compared to 20.5% and 29.3% for the first quarter of 2008 and second quarter of 2007, respectively. The quarter-over-quarter and year-over-year decrease in operating margin was due to reduced gross margins of the property developments for the second quarter of 2008 and increased selling, marketing

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and general and administration expenses. Excluding share-based compensation expenses, non-GAAP, operating margin for the quarter was 12.2% compared to 23.1% and 29.3% in the first quarter of 2008 and second quarter of 2007, respectively.

In the second quarter of 2008, we recognized a gain of \$2.8 million arising from a decrease in fair value of warrants issued with the floating rate notes, compared to a gain of \$11.3 million arising from the decreased fair value of the warrants in the first quarter of 2008 and expenses of \$4.8 million arising from an increase in fair value of the warrants in the second quarter of 2007.

Net income for the second quarter of 2008 was \$13.2 million, compared to \$33.2 million and \$14.6 million for the first quarter of 2008 and second quarter of 2007, respectively. Basic and diluted earnings per share was \$0.09 and \$ 0.08 earnings per ADS of \$0.18 and \$0.16 for the second quarter of 2008, respectively. Each ADS represents two common shares.

Now I would like to give you a brief outlook at Q3.

Looking at the first two months of the third quarter, market conditions within the real estate market have remained tough. However, as Mr. Zhang mentioned earlier, the last four months of the year are typically the strongest in China's real estate industry and we maintain an optimistic outlook for the rest of 2008. We have two projects scheduled for launch in September in Chengdu and Kunshan and we are confident these developments will help to mitigate the slower start and contribute more to our results for the rest of 2008.

Moving to our full-year outlook, based on the challenging market conditions that have result noticeably slower buyer demand for real estate housing and growth estimates for the remainder of the year, we are revising our revenue guidance for the fiscal year 2008. We estimate total revenues for 2008 to be in the range of \$450 million US dollars to \$520 million US dollars, representing year-over-year growth in the range of approximately 45% to 68%.

Our revised estimates of the total revenues for 2008 reflect our updated expectations of possible delays in the pre-sales, construction and delivery of property development projects due to the market uncertainties and higher construction costs due to rising cost of raw materials and labor in general. Our presale performance for the first half of 2008 was approximately \$240 million US dollars in contracted sales, which means 50%, half, of our revised target sales for 2008 has been completed. Please note that contracted sales figures are operating data and do not represent recognized revenues.

Although we are adjusting our top-line guidance, our bottom-line guidance remains unchanged and we estimate net income for 2008 to be in the range of \$60 million US dollars to \$70 million US dollars, representing year-over-year growth of approximately 31% to 53%. We expect to achieve net expenses--net income, sorry--within our estimated guidance range through increased gross profit margin on new projects, lower selling, general and administrative expenses, interest expenses, foreign exchange, and other income gains.

At this time, we're happy to take your questions. Operator, please proceed.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) Our first question comes from the line of Kun Tao with Roth Capital. Please proceed.

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### Kun Tao - Roth Capital - Analyst

Hi. Maybe I couldn't listen carefully. But what do you think real estate markets in terms of price and sales volumes in the cities where you have projects in remaining 2008 and 2009?

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**Lisa Wang** - *Xinyuan Real Estate - IR*

Could you repeat your question, please?

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

Yes, what do you think of the total real estate markets in terms of price and sales volumes in the cities where Xinyuan has projects, such as Suzhou, Hefei...

**Lisa Wang** - *Xinyuan Real Estate - IR*

Okay. I got it. Thank you. Let me translate for the Chairman. Okay?

**Yong Zhang** - *Xinyuan Real Estate - Chairman & CEO*

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

Okay. In terms of the situation in the six cities that we're operating within, the selling price has actually increased at a rate of about 5% during the first half of the year. In terms of the volume, the situation's different in different cities. For example, in Chengdu and Suzhou, the volume has decreased about 40%. But in Zhengzhou, Jinan, and Hefei, the volume has decreased at the rate of about 20%; much less than that in Suzhou and Chengdu.

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

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

The question was about the expectations of Mr. Chairman after 2008.

**Yong Zhang** - *Xinyuan Real Estate - Chairman & CEO*

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

(spoken in Mandarin)

**Yong Zhang** - *Xinyuan Real Estate - Chairman & CEO*

(spoken in Mandarin)

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**Kun Tao** - Roth Capital - Analyst

(spoken in Mandarin)

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Lisa Wang** - Xinyuan Real Estate - IR

Okay. The chairman said that I personally believe the remaining four months of this year and out to the next year, I mean, the situation in the last four months of this year and the next year will be better than the past two months or past two quarters. In the big cities, especially the second tier cities in China, the demand for housing is still very high. During this year so far, it is mainly the buyers who want to invest who is taking a wait-and-see attitude. Otherwise, the demand for self-use is still very strong. As long as China's economic growth remains at about 10%, the demand for real estate sector will remain strong. And I don't think the real estate sector will suffer tremendous setbacks in the next--in the period going forward.

**Frank Ng** - Xinyuan Real Estate - CFO

And I guess the Chairman would say okay to expect a GDP growth at about 10%, not GDP 10%.

**Lisa Wang** - Xinyuan Real Estate - IR

I said economic growth.

**Frank Ng** - Xinyuan Real Estate - CFO

Yes. Okay.

**Kun Tao** - Roth Capital - Analyst

Alright. Thanks. So my second question is what is your last purchasing plan in the remaining of 2008?

**Lisa Wang** - Xinyuan Real Estate - IR

(spoken in Mandarin)

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Lisa Wang** - Xinyuan Real Estate - IR

Okay. First off, Xinyuan has sufficient cash. We have a very strong cash position and we're also closely watching the market situation. We are taking a cautious approach in terms of land purchase strategy. Based on our business model, the advantage of it is that we can start building the development four to six months after we purchase land and that will allow us to generate

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cash flow within ten months. So basically, the cash flow is our first priority. But in the meantime, we're also actively monitoring the land market in China.

**Frank Ng** - *Xinyuan Real Estate - CFO*

In short, we just make sure we have sufficient cash to turn the wheel.

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

Okay. So you don't have specific like plan on hand to purchase how many GFA that you plan to purchase in the remaining 2008. But apparently, you have enough cash to purchase if you want. Is that right?

**Lisa Wang** - *Xinyuan Real Estate - IR*

(spoken in Mandarin)

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

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

(spoken in Mandarin)

**Yong Zhang** - *Xinyuan Real Estate - Chairman & CEO*

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

Yes, we do have sufficient cash and we have more than \$100 million. So we basically want to watch the market a little bit more. But because uncertainties, we don't want to make specific plans in terms of purchasing the land.

**Yong Zhang** - *Xinyuan Real Estate - Chairman & CEO*

(spoken in Mandarin)

**Lisa Wang** - *Xinyuan Real Estate - IR*

On the other hand, we are also in the process of getting the loans that we targeted. We have about RMB600 million loans are in the process of being obtained.



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**Kun Tao** - Roth Capital - Analyst

Okay. Thank you very much. I think my last question is go back to the loans that you just mentioned. We know that because of the credit tightening in China, do you think it's getting tougher to get a loan from banks currently?

**Lisa Wang** - Xinyuan Real Estate - IR

(spoken in Mandarin)

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Lisa Wang** - Xinyuan Real Estate - IR

Yes, indeed, during the first six months of this year, the credit policy was very tight. So far we haven't seen a dramatic relaxation of them yet, but Xinyuan has been in a very good position in terms of getting the loans desired in comparison with other companies.

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Lisa Wang** - Xinyuan Real Estate - IR

During the first six months, we reached 50% of our target in terms of loans and during the months of July and August, we have achieved 70% of our target, of our annual target.

**Kun Tao** - Roth Capital - Analyst

All right, thanks.

**Operator**

Our next question comes from the line of Robert Fong with Merrill Lynch. Please proceed.

**Robert Fong** - Merrill Lynch - Analyst

Hi. Good evening, everybody. Just had several questions, more on the financial statement front. Firstly, with regard to your selling and administration expenses, now I realize that a portion of your moving costs from Zhengzhou to Beijing is included in that. If you were to strip that out, then how much would the G&A expenses have been? Like how much of the expenses related specifically to the moving of corporate headquarters?

**Lisa Wang** - Xinyuan Real Estate - IR

(spoken in Mandarin)

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**Frank Ng** - Xinyuan Real Estate - CFO

So then well, as far as I know, we have not yet accounted much of the moving cost in as G&A. But I will confirm with you some (inaudible) by separate email because I just checked with the numbers. Okay. Then we didn't account some in much of the moving cost in the S&GA line.

**Robert Fong** - Merrill Lynch - Analyst

Okay. If that's the case, then in the first half, as it says in your SG&A expenses section, it indicates that the percentage of sales for first half of 2008 was 10.9% compared to 8.1% for the same period of 2007. Now given that there really weren't a lot of new launches, what accounts for that? I mean, you had one new project launch in the second quarter. What accounts for that big spike in SG&A expenses then?

**Frank Ng** - Xinyuan Real Estate - CFO

(inaudible) SG&A a particular focus on the selling and distribution expenses. I guess a majority of the product then also come from the G&A. And then for the G&A, for the last year, that was not an apple-to-apple comparison because Xinyuan is a private company in 2007. And right now, Xinyuan is a public, I mean, a listed company on the New York Stock Exchange. And for example, I mean, all the professional fees, will be relatively more than for the last year for the same quarter, such as we are going to engage some of the professional parties for the (inaudible) and then amend the others, the list--the maintenance of being a listed company as well.

And stock-option amortization, I mean, it's a one off, still a one off the major items. I mean, they will be accounted in the G&A expenses as well. That's not that much as for the last year. But on the quarter-over-quarter, the comparison for Q1 over Q2 2008, there is still in fact already from Q1 to Q2. But our long-term target for the SG&A will not be--will be the 10% of the revenue. We still will target in a range of 7% to 8%.

**Robert Fong** - Merrill Lynch - Analyst

Because the operating margin for the quarter, even if you exclude the share-based compensation was 12% compared to 23% for the first quarter. And I realize some of that is coming from the gross margin differential. But the gross margin in Q1 was 23.6% and in this quarter was--sorry--Q1 was 29.2% and this quarter was 23.6%. So that's about a 6% difference. But then the operating margin excluding that is 12% compared to 23%. That's an 11% difference. So there's margin compression both on the gross front as well as on the operating front. I've noticed some of this--a little bit of this from some of the other Hong Kong listed developers. But this degree of margin compression seems quite severe in such a short period of time.

**Frank Ng** - Xinyuan Real Estate - CFO

Okay. Well, for the Q1 over Q2, the comparison of gross margin down by about six points. That will be absolutely right. It's mainly because we got pretty good product margins from the (inaudible) in Q1. But on the other hand, the Suzhou International City Garden, the margin relatively lower than the others because of the higher land cost in Suzhou, this particular piece of the project.

That's why this is the main driver to pull down the margins, the Q2 over the Q1. There's two extremes--one because we've got a very good product margin in Suzhou Splendid, as I mentioned. And then on the other hand, we got--we pulled out the Suzhou International City Garden of relative or compared with the others. It's relative, the thin margin there.

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**Robert Fong** - Merrill Lynch - Analyst

Well, what were the margins on Suzhou International City Garden if you can disclose that?

**Frank Ng** - Xinyuan Real Estate - CFO

They will be--would be below 15% of the others. I mean, just only--not higher than 15% of these for the gross margin of this particular project. But for the rest, on the average would be more than the 25% on that.

**Robert Fong** - Merrill Lynch - Analyst

Okay. In the second half, okay, I noticed that your guidance on revenues on your first paragraph for outlook for fiscal 2008 that your new revenue range is \$450 to \$520. That's down from \$550 to \$630 given at the end of the first quarter. However, the net income guidance is still \$60 to \$70. And that's inclusive of the forex gains--the unrealized forex gains--and also the change in value--change in fair value--of the warrants. Now if I take out the change in the fair value of the warrants, that leaves--well, just call it roughly--see, your own numbers are back here. That's about \$17 million between the fair value change in the liabilities and the unrealized foreign exchange gain. So if I take out that part of it, that means the core income for the full year would be roughly \$46 to \$66 million. Is that reasonable assessment of--?

**Frank Ng** - Xinyuan Real Estate - CFO

(inaudible) yes, because also you have to give a best-guess on these fair value adjustment on the warrants. That will be more or less the same amount you have just mentioned. That's why take it out after (inaudible) this one, the core--I mean, the core net income we were talking about may be in a range of the \$47 to \$50 million US dollars.

**Robert Fong** - Merrill Lynch - Analyst

Okay. Now how much additional GFA will you be putting onto the market in second half of '08? So the additional projects in Chengdu and Kunshan on a GFA basis, what does it represent in terms of saleable area?

**Lisa Wang** - Xinyuan Real Estate - IR

(spoken in Mandarin)

**Frank Ng** - Xinyuan Real Estate - CFO

Okay. The Kunshan we're talking about--just for a second I look at the tables on this for you. The Kunshan for the whole project, we're talking about more than half a million square meters. Of course, we're not going to launch (inaudible). And similarly, for the Chengdu, we're talking about also some similar size projects in there. And okay, then we're going to launch in the second half or in the last quarter of this year. But still it depends on the market response how many square meters are we going to launch out. Well, we're going to decide earliest or later this month or early next month. Well, did I answer you?

**Robert Fong** - Merrill Lynch - Analyst

Yes. I mean, like phase one, I mean, how much is available for sale? Like just give it to me in terms of availability for sale as opposed to launching so at least I have an idea of what's on the table of potentially saleable.

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**Frank Ng** - Xinyuan Real Estate - CFO

That will be--should not be less than 200,000 square meters will be available for that. But of course, it still depends on the market response on that.

**Robert Fong** - Merrill Lynch - Analyst

For the two collectively or for each individually?

**Frank Ng** - Xinyuan Real Estate - CFO

For each, for each.

**Robert Fong** - Merrill Lynch - Analyst

For each. So each of them should have available for sale about 200 K. But what you'll launch will be--will depend on market conditions.

**Frank Ng** - Xinyuan Real Estate - CFO

Yes.

**Robert Fong** - Merrill Lynch - Analyst

Okay. Lastly, I just want to turn my attention to the balance sheet. And now if I look at the balance sheet compared to, say, the end of the first quarter--or actually, you have the end of last year there. But there's been a--your cash position is still pretty good. But the restricted cash, can you give a bit more color on what is the restricted cash?

**Frank Ng** - Xinyuan Real Estate - CFO

I guess, on just the annual report on the page--I forget exactly [the numbers]. It'll be F13 and F31. There we have clear definition of restricted cash. This similarly applies in our case even up to date because we have no change of assumption. In fact, we'll be (inaudible) restricted cash will be (inaudible) with all the money but the (inaudible) borrowing, we have to (inaudible) some kind of deposit into the bank in order to get this kind of borrowing.

The second as well as the major item and that is our home buyer will get the borrowings from the banks that means the mortgage. And we also have to make some kind of restricted cash as deposit against it until we demand (inaudible) the end user get the land rights certificate and then we can get the money released.

**Robert Fong** - Merrill Lynch - Analyst

Okay. In terms of as a general guideline, Mr. Zhang, the Chairman mentioned a few times you're going to be cautious in your land acquisition policy. Is there any upper limit of gearing, net debt-to-equity leverage or gearing, that you're willing to go to? Or how exactly are you going to determine how much you're willing to spend on land, on construction? And following on that, what is your construction CapEx for--on a monthly basis, how much is Xinyuan spending on construction CapEx?

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**Lisa Wang** - Xinyuan Real Estate - IR

(spoken in Mandarin)

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Lisa Wang** - Xinyuan Real Estate - IR

Okay. The Chairman said in terms of Company's considerations on the debt structure, the (inaudible) the debt-equity ratio to be more than 60% when it considers purchasing the land or not.

**Yong Zhang** - Xinyuan Real Estate - Chairman & CEO

(spoken in Mandarin)

**Frank Ng** - Xinyuan Real Estate - CFO

The net gearings, Rob, we're talking about just 28% for the end of June. So then the Chairman just mentioned that the apple-to-apples comparison, the 60%, we're still a lot of room to gear up.

**Robert Fong** - Merrill Lynch - Analyst

Okay. What's your construction CapEx on a monthly basis, based on your current--?

**Frank Ng** - Xinyuan Real Estate - CFO

Based on the current development, we're talking about in a range of about RMB120 million--that's not U.S. dollar, I'm sorry, okay--to RMB150 million per month.

**Robert Fong** - Merrill Lynch - Analyst

So RMB120 million to RMB150 million per month.

**Frank Ng** - Xinyuan Real Estate - CFO

Yes.

**Robert Fong** - Merrill Lynch - Analyst

Okay. And just for the first half, not recognized revenue, but how much did you actually generate in terms of contracted sales?

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**Frank Ng** - Xinyuan Real Estate - CFO

Yes, I remember when I go through the script, maybe I have running too fast. The contracted sales for the first half of the year, we're talking about 260,000 square meters or translated into U.S. dollar, we'll be talking about \$240 million. That means half of our annual growth, of course, of course the revised one is already achieved.

**Robert Fong** - Merrill Lynch - Analyst

Okay. I'm not talking about recognized revenue, I'm talking about the actual--

**Frank Ng** - Xinyuan Real Estate - CFO

Sorry. We cannot hear you.

**Robert Fong** - Merrill Lynch - Analyst

I said I'm not talking about recognized revenue. I'm talking about actual contracted sales because, if I look in your contracted sales, meaning things that customers have put down deposits for that have not yet been delivered because, if I look at your balance sheet under the liabilities--current liabilities--of customer deposits, then the balance from end of December '07 of \$25 million has indeed risen, but only to \$35 million as of the end of June. So this is just under the short-term bank loans and just above the income tax payable to customer deposits.

So I just wanted to get a sense of what are we looking at in terms of what was the contracted sales number for the first half. And what are you expecting for the second half in terms of contracted sales?

**Frank Ng** - Xinyuan Real Estate - CFO

The numbers that I just provided to you is for the contracted sales or (inaudible) sales. Then we'll be talking about \$240 million that will be contracted. And in terms of the GFA, we're talking about more than 260,000 square meters have been contracted for the first half of 2008.

**Robert Fong** - Merrill Lynch - Analyst

Okay. That's fine. Thank you.

**Frank Ng** - Xinyuan Real Estate - CFO

Yes, you're welcome.

**Operator**

(OPERATOR INSTRUCTIONS) And at this time, there are no additional questions. I will now turn the call over to management for closing remarks.

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**Frank Ng** - Xinyuan Real Estate - CFO

Any further questions, gentlemen or ladies, I'm sorry? If no, okay, then, looking forward--we will continue to focus on our project execution and streamlining our cost structures while closely monitoring difficulties, market conditions for opportunities. When market conditions do begin to stabilize, I will believe we can leverage our strong brand regulations and sustainable business model to continue bringing higher quality, affordable homes to China's middle income buyers and deliver long-term shareholder value. Anyhow, okay, if any of you have still further questions, feel free to contact us at any time. Thank you.

**Operator**

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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