

# FINAL TRANSCRIPT

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**XIN - Q3 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call**

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Nov. 25. 2008 / 8:00AM, XIN - Q3 2008 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Jacky Zhang**

*Xinyuan Real Estate Co., Ltd. - IR Manager*

**Yong Zhang**

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

**Frank Ng**

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

## CONFERENCE CALL PARTICIPANTS

**Kun Tao**

*Roth Capital - Analyst*

**Hao Hong**

*Brean Murray - Analyst*

## PRESENTATION

**Operator**

Good evening and thank you for standing by for your Xinyuan Real Estate Company, Limited Third Quarter 2008 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 objections you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Mr. Jacky Zhang, Xinyuan's Deputy General Manager of Investor Relations. Please proceed.

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**Jacky Zhang** - *Xinyuan Real Estate Co., Ltd. - IR Manager*

Hello, everyone, and welcome to Xinyuan's Third Quarter 2008 Earnings Conference Call. The Company's third quarter earnings results were released earlier today and are available on the Company's Investor Relations Website at [ir.xyre.com](http://ir.xyre.com), as well on newswire services. You can also download the short presentation regarding today's earnings results from our website.

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will discuss the business highlights for the third quarter of 2008 and touch on some policy updates for the real estate industry. He will be followed by Mr. Frank Ng, our Chief Financial Officer, who will go over the company's financial results and provide some color on our results. Following management's prepared remarks, we will 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 US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is 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.

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 US dollars. Please go ahead, Mr. Zhang.

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

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

The third quarter 2008 continued a very challenging period within China's real estate sector, but despite the difficulties we still managed to generate solid revenues. Our total revenues for the quarter were \$83 million U.S. dollars and our net income was \$7.8 million U.S. For the nine months ended September 30, 2008, our total revenues were \$295.8 million U.S. and our net income was \$53.9 million U.S.

Starting in October, the central government implemented a series of policy measures designed to stimulate real estate investment. These measures include reduction in down payments on owner-occupied housing, a reduction in official interest rates, a reduction in deed tax and a waiver of stamp duty fees. Also, on November 9, 2008, the State Council of the People's Republic of China announced a \$586 billion economic stimulus program designed to promote economic development and bolster domestic demand, and identified the sound development of China's real estate industry as one of the 10 key objectives of the plan. In other significant developments, China's central bank recently revised legislation to remove credit limits for commercial bank lending and took measures to make borrowing money and obtaining mortgages easier.

Xinyuan's focus is on small- to medium-sized housing for the growing middle-income demographic, which positions us well to meet the future demands of the market.

In the following months, we will continue in our efforts to maximize sales and minimize inventory to ensure liquidity. This strategy will allow Xinyuan to adapt to possible market changes. Once the market rebounds, the company will generate impressive results.

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

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

Thank you, Mr. Zhang. Hello to everyone on the call and thank you for listening today. This quarter I would like to briefly run through some of the financials and spend a short amount of time discussing strategy while leaving more time to add color during the Q&A.

As a reminder, all of the following numbers are stated in US 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 a reconciliation of these figures in the financial tables at the end of our press release.

Total revenues for the third quarter of 2008 decreased 5.4% sequentially to U.S. \$83 million. For the nine months ended September 30, 2008, total revenue increased 35.5% to \$295.8 million compared to the same period in 2007. Our Chengdu and Kunshan projects launched at the end of September got off to a slow start, but we did witness solid sales in Zhengzhou and Jinan during the quarter and those two cities made up around 63% of our total revenues.

Our gross profit margin for the third quarter of 2008 was 22.2%, a drop of around 1.5% from Q2. For the first nine months of 2008, our gross margin was 25.6%, down from 32.7% for the same period in 2007, due to lower margins on the newly launched projects compared to 2007.

Selling, general and administrative expenses as a percentage of the total revenue increased to 16.3%, compared to 14.2% for the second quarter of 2008. For the nine months ended September 30, 2008, SG&A expenses as a percentage of total revenue were 12.4% compared to 6.3% for the same period in 2007. The higher SG&A expenses were mostly due to increased selling

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and marketing activities, salaries, stock-based compensation amortization and professional fees associated with being a public company.

The renminbi appreciated slightly against the dollar during the third quarter resulting in a foreign exchange gain of around \$700,000 for us. We also recognized a gain of just over \$2 million from a decrease in fair value of the warrants issued with floating rate notes during the quarter. This gives us a gain of approximately \$16.1 million from a decrease in fair value of the warrants for the first nine months of 2008.

Income tax expense for the third quarter of 2008 was \$3.5 million, compared to \$4.3 million and \$9.7 million for the second quarter of 2008 and third quarter of 2007, respectively.

Net income for the third quarter of 2008 was \$7.8 million, down from \$13.2 million in Q2 and \$16 million in Q3 '07.

For the nine months ended September 30, 2008, net income increased 43.7% to \$53.9 million compared to the same period in 2007.

Our basic and diluted earnings per share for the third quarter of 2008 were both \$0.05, which is equivalent of \$0.10 basic and diluted earnings for ADS. For the first nine months of 2008, basic and diluted earnings per share were \$0.36 and \$0.27 respectively, or equivalent of \$0.72 and \$0.54 basic and diluted earnings per ADS.

Now, I would like to step back from the numbers and provide some insight into the current operating and sales environment.

Selling prices remained relatively stable in our markets, although sales volumes have decreased. Depending on the future market conditions, we may face additional pressures and may need to adjust our pricing to spur sales which could impact our margins. To help alleviate possible margin compression, we are actively taking additional cost measures to help to reduce SG&A expenses as a percentage of revenues and we are aiming for this to help to mitigate any potential decrease in ASPs during the fourth quarter of 2008 and into early 2009.

As Chairman Zhang mentioned, under the persistently challenging market conditions, our top priorities are to maintain a strong balance sheet and preserve liquidity. We are dividing our projects into development phases and we are releasing parts of each development slowly into the marketplace to avoid oversupply. In addition, we are rescheduling development plans and where necessary, slowing the construction of existing and future projects while we wait for the market conditions to improve. This strategy helps us effectively control our cash flows while maintaining a high level of capital efficiency, enabling us to quickly respond to any changes in the market conditions while we wait for the market to rebound. In the meantime, we will continue to feed new housing units into markets exhibiting relatively higher levels of demand.

Xinyuan remains in a competitively strong position in that we have about \$180 million in cash on our balance sheet and net gearing ratio is below 40%, which allows us the flexibility to capitalize on any commercially and financially sound business opportunities we come across.

Looking ahead to the remainder of 2008, we believe the tough market conditions and a difficult sales environment will persist as we close out what has been one of the most challenging years in recent memory for China's real estate developers.

Given the highly volatile and difficult conditions experienced at the end of the third and into the fourth quarter, we have determined that near-term revenue visibility is limited and providing forward guidance is not prudent at this time. Nonetheless, we remain optimistic that recently enacted policies by the central and municipal governments will lead to higher consumer sentiment and rejuvenate the real estate sector on a national level. We will continue in our diligent efforts to deliver above industry average EPS and long-term value to our shareholders. With a strong balance sheet, disciplined land acquisition strategy and intense focus on capital management, Xinyuan remains well positioned to capitalize on opportunities as they arise.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Kun Tao with Roth Capital.

### Kun Tao - Roth Capital - Analyst

Good morning, everyone. My first question is you just mentioned SG&A cost expenses. You tried to lower that cost as a percentage of revenue. In this quarter, actually, that cost, I believe, has increased. So what's your expectation in Q4 and going forward? Do you have a specific target?

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

(interpreted) Selling price has increased while G&A expense remained reasonably stable in absolute dollar value. And the increase is mainly due to the increase in selling and marketing activities to promote new projects as well as other expenses. And in Q4, we will do something to cut the expense, as well as selling and in promotion expense for the marketing activities.

And you know that expected sales for Q4 comparing with our original expectations has decreased so we have no need to maintain a very large headcount. And in Q4, we will cut the salaries and other expenses and we are going to continue to cut the G&A fees in Q4.

And comparing with our original expectations for the sales volume, and, right now, our strategy is to safeguard our liquidity and to make sure of the security of our cash position. And based on our expectation for the sales volume in Q4 and next year, 2009, we will reduce the selling and general and administrative fees in our next year's budget.

### Kun Tao - Roth Capital - Analyst

All right. Thanks. For your cash flow, what is your cash flow from operation in the quarter and what's your cash flow from the investments this quarter?

### Jacky Zhang - Xinyuan Real Estate Co., Ltd. - IR Manager

Our CFO will refer to this question.

### Frank Ng - Xinyuan Real Estate Co., Ltd. - CFO

For the financial activities, for the investments (inaudible), we got the money from the bank borrowing. From January to September, we're talking about we are RMB1.3 billion (inaudible) that we have.

Then for the operational ones, I don't have exact numbers with me, because for our quarterly, but don't list or compare this in the cash flow statement. But roughly, we're talking about it will be RMB4 billion to RMB5 billion (inaudible) from the operational, but I have to check that and respond to you (inaudible). As for financing activities, I just told you that will be RMB1.3 billion, that we have draw-downs from January to November.

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**Kun Tao** - Roth Capital - Analyst

You just mentioned, from operations, RMB4 billion to RMB5 billion of what?

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

Of renminbi. It's also renminbi.

**Kun Tao** - Roth Capital - Analyst

The RMB4 billion to RMB5 billion is cash outflow, right?

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

No, inflow. Inflow.

**Kun Tao** - Roth Capital - Analyst

Operations.

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

Yes.

**Kun Tao** - Roth Capital - Analyst

Okay, in the first nine months.

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

What I mean is all we're talking about is the cash inflow.

**Kun Tao** - Roth Capital - Analyst

Okay. So you mentioned in the conference you have RMB1.2 billion payments due in 2009. What is your expectation in that you can borrow from the banks in 2009 and how much? (spoken in Chinese)

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

I've got the numbers. We still have the RMB418 million in drawdown loans this year. For the next year, we have the (inaudible) and then (inaudible) talking about RMB317 million that are already approved, but we haven't drawn down yet.

When you add them together, for this year, that we already applied, with draw down, with approval and without approval, all included, we're talking about RMB850 million bank loan available, not including the existing one, of course.

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**Kun Tao** - Roth Capital - Analyst

So you just said you have RMB418 million undrawn bank loans in 2008 and you have RMB470 million in 2009. Is that right?

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

(inaudible) million renminbi loans.

**Kun Tao** - Roth Capital - Analyst

In 2009.

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

No. In 2009, that means up to now, because we cannot predict in 2009. What we see okay then we have already approved. We're talking about RMB418 million approved, but not yet drawn down, and then another RMB317 million bank loans that we already submitted our application. We've got a very high chance to get approval as well.

**Kun Tao** - Roth Capital - Analyst

Okay. Okay. You submit the application. All right.

My last question is to go back to your guidance. You previously provided guidance for 2008 was \$450 million to \$520 million revenue or \$0.74 to \$0.80 per ADS. Is that still intact or still your formal guidance?

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

(interpreted) Okay. Regarding the second half of 2008 versus the first half of 2008 within the total market, is decreased, and it's a tough market, as well as comparing the trend in Q3 2008 versus Q4 2008. And we think that maybe we can reach the bottom line for our financial guidance for net income, but not the sales volume.

**Kun Tao** - Roth Capital - Analyst

All right. Thanks.

**Operator**

(Operator Instructions) Your next question comes from the line of Hao Hong with Brean Murray.

**Hao Hong** - Brean Murray - Analyst

I just have more questions on your cash position. I remember you mentioned in your last conference call that your construction cash payment amounted to about RMB120 million to RMB150 million. But given now you have reduced your construction schedule, I'm just wondering what is the cash payment amount now, the new cash payment amount.

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**Unidentified Company Representative**

(spoken in Chinese)

**Unidentified Company Representative**

Currently we plan to pay construction costs of RMB100 million per month.

**Hao Hong** - Brean Murray - Analyst

How much? I didn't hear that.

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

RMB100 million per month.

**Hao Hong** - Brean Murray - Analyst

Right, and also, could you remind us how your restricted cash works, because now you have RMB80 million restricted cash and RMB100 million in cash. So I'm just wondering, the restricted cash, are they all spoken for?

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

The restricted cash is 100% restricted cash, that means we have to place a deposit in order to get the bank loans or to get the mortgage. We're talking about less than RMB200 million. For the rest, we (inaudible) restricted cash, because they only allow for the restricted purpose.

For example, we got the bank loans from Commercial Bank of China and then allowed for using in the Kunshan project. In the balance sheet they would still treat it as restricted cash, but they can still allow us to pay off the construction salaries or whatever, for the respective projects. Then we will not treat this as restricted cash.

**Hao Hong** - Brean Murray - Analyst

Right. And then, are the construction costs paid out of your restricted cash or is it paid out of your cash reserves?

**Frank Ng** - Xinyuan Real Estate Co., Ltd. - CFO

They will pay us by those I will just saying, okay, we're (inaudible) restricted one, because then we get bank financing. Of course, they allow us to spend the payment on the respective projects, for the construction payment.

Just like okay I told you the example. We get the bank loan, the bank finance from Commercial Bank A to finance our Kunshan project. Of course, the Kunshan project, the construction costs, it will be paid off by this loan.

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**Hao Hong** - *Brean Murray - Analyst*

Okay. Also, I just want to follow-up on one question just now you were asked. Basically, there was RMB1.2 billion bank loans due by the end of -- in 2009 and you mentioned that you have RMB735 million credit available. So can we say then there is a gap of over RMB400 million that you need to figure out how to finance?

**Frank Ng** - *Xinyuan Real Estate Co., Ltd. - CFO*

I would say we're talking about we already submitted and approved one. Of course, we've still got a very good chance to move forward. I would just repeat. For those we have approved, but not yet drawn down, we're talking about RMB418 million. For those we have submitted our application, we're talking about RMB317 million.

So all together, we're talking about RMB850 million. That would be more than 60% already approved. The other 40%, we're waiting for approval. But, of course, moving forward, we've still got a chance to get additional negotiations with the bank to get additional financing.

Of course, in principal, in the numbers, you can say that, yes, but we've still got a chance to talk with them. We're talking about RMB1.2 billion over next year. We're only talking about 30% would be due in the second half of 2009. The majority will be due in November and December of 2009.

**Hao Hong** - *Brean Murray - Analyst*

Right. Okay. I also want to ask about your SG&A reductions. Obviously, this quarter, SG&A as a percentage of sales has increased dramatically. I'm just wondering what would be a realistic percentage we could use in our forecast for your next quarter.

**Unidentified Company Representative**

(spoken in Chinese)

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

(interpreted): For the average for this year, 2008, we hope that our SG&A, average percentage can reach 13% and for next year, we will try our best to endeavor to cut our salaries, our headcount, and some other expenses to reduce our average of percentage for SG&A.

**Hao Hong** - *Brean Murray - Analyst*

Also, one more question on your tax rate. I noticed that your tax rate is extremely high, at 41%. Given that, in China, they have implemented a uniform tax rate of 25%, I'm just wondering why your tax rate is so high.

**Frank Ng** - *Xinyuan Real Estate Co., Ltd. - CFO*

After income tax expenses, not just for the corporate income tax, in fact, will have land appreciation tax also, that will be incorporated in the numbers in line with the other companies. They were treated (inaudible) in the cost of the revenue.

That's why they will mess up the numbers, I mean they provide the wrong guidance on that, okay, that will be up to 41%. In fact, there's still some income (inaudible) with the tax law, the corporate income taxes will be only 25%.

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**Hao Hong** - *Brean Murray - Analyst*

Okay. Thank you.

**Operator**

(Operator Instructions) And I'm showing you have no further questions. We are now approaching the end of the conference call. I will now turn the call over to Xinyuan's Chief Financial Officer, Mr. Frank Ng, for closing remarks.

**Frank Ng** - *Xinyuan Real Estate Co., Ltd. - CFO*

Thank you again for joining us on today's call. Although market conditions remain challenging, we will continue to rely on our experience and expertise, as well as our strong cash position and balance sheet to take advantage of the market opportunities as they arise. If any of you have any questions, please 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. Good day.

**Editor**

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