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# EDITED TRANSCRIPT

XIN - Q4 and Full Year 2012 Xinyuan Real Estate Co., Ltd. Earnings  
Conference Call

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## CORPORATE PARTICIPANTS

**Helen Zhang** *Xinyuan Real Estate Co., Ltd - Director - IR*  
**Yong Zhang** *Xinyuan Real Estate Co., Ltd - Chairman, CEO*  
**Thomas Gurnee** *Xinyuan Real Estate Co., Ltd - CFO*

## CONFERENCE CALL PARTICIPANTS

**Matthew Larson** *Morgan Stanley - Analyst*  
**Pat O'Donohue** *Weeden & Co - Analyst*  
**Steve Capone** *Estate Planning Consultants of Hawaii, Inc - Analyst*  
**Matthew Lawson** *Morgan Stanley - Analyst*  
**Frank Schuh** *Renault Adventures - Analyst*  
**Felix Lu** - *Private Investor*  
**Peter Chin** - *Private Investor*

## PRESENTATION

### Operator

Good day everyone and welcome to the Xinyuan Real Estate Company Ltd Fourth Quarter 2012 Earnings Conference Call. Please note that today's call is being recorded. I would now like to turn the conference over to Helen Zhang. Please go ahead, ma'am.

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### Helen Zhang - Xinyuan Real Estate Co., Ltd - Director - IR

Hello, everyone and welcome to Xinyuan's fourth quarter and full year 2012 earnings conference call. The Company's fourth quarter and full year earnings result were released earlier today and are available on The Company's IR website, as well as on Newswire services.

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 result would 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.

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will comment on current market situations and provide some perspectives on the property 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 first quarter and the full year 2013.



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.

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

Good morning and thank you for joining our fourth quarter and the full year 2012 earnings conference call.

China's property market demand is stable in the fourth quarter as we expected. While economic uncertainties and stricter purchasing controls remain possible for the China market, we believe the housing market situation is healthy and we intend to continue to develop projects at stable pace to meet continued market demand. We experienced a very stronger fourth quarter with revenue.

Contract sales and net income are exceeding our previous guidance. Total growth for all sales increased 19% over the same period last year to 133,000 square meters and our average selling price per square meter increased 5%.

We continue to return shareholders by paying dividend and The Company decided to increase quarterly dividend to \$0.05 per ADS, which will be paid February 28. We are very pleased to have completed an extremely successful year and are confident in Xinyuan's market position.

Our growth in the years to come is supported by a stronger balance sheet, available project pipeline and active pursuit of new project, and an exceptional group of employees.

Please allow me to now turn the call over to Tom Gurnee, our Chief Financial Officer.

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

Thank you, Chairman, Zhang. First of all, let me open by commenting in general. The fourth quarter of 2012 contract sales, revenue, net income results were clearly better than expected. Contract sales for the fourth quarter exceeded the midpoint of guidance by 21%. Revenues surprisingly exceeded the midpoint of guidance by over 81% including \$8 million of presales and revenue for our US properties in Reno.

Average selling prices increased as expected on mix not necessarily on price increase. Our cash balance rose from \$608 million in the third quarter to \$642 million at the end of the fourth quarter despite over \$108 million spent on land deposits in the fourth quarter.

Our sellable inventory continues to decrease, this was partially offset by earlier than expected debut of Zhengzhou Century East A in December. Four new projects will begin contributing presale and revenue in the third quarter of 2013. In the meantime, sales and revenue will be under some pressure.

We're working with selective land bureaus in China to bring several parcels of land to auction. We expect to see multiple land acquisitions from April 1. Let me provide some additional color on all of these points.

Contract sales, contract sales for the fourth quarter of \$188 million fell short of last year's \$230 million, but beaten our guidance for the fourth quarter of \$150 million to \$160 million. As you can see from the project sales table in our earnings release issued just a couple of hours ago, all but four of our 11 active projects this year are 90% sold. In December, the view of our Century East A project in Zhengzhou helped a lot with the contract sales by logging over 17 million of contract sales that we have not expected to record until 2013.

Revenue, revenue under the US GAAP percentage of completion method for China projects and the US GAAP full accrual method for USA projects totaled \$263 million versus our Q4 guidance estimate of just \$140 million to \$150 million.



Obviously, this was a bit of a surprise. Several factors were at work here. First, there was the early introduction of Century East A as I mentioned earlier. Second, we sold 8 million of properties in the United States that we had expected to close in the first quarter of 2013.

Third, as mentioned in the last quarter's press release conference call, Shandong Splendid encountered technical piling issues last quarter which led to a lower percent complete that we had expected, well the project has recovered nicely in the fourth quarter and has progressed on a percent complete at a faster pace than we had expected.

Fourth and finally, as Chengdu I and Kunshan projects near completion, total project cost estimates were lower by \$5 million and \$7 million respectively as power, cable, and water systems cost savings were confirmed. A reduction in cost estimates as a percentage completion method increases the percent complete used to calculate cumulative revenue.

Now let me comment on gross profit. The fourth quarter gross profit totaled \$88 million or 33.4% of revenue versus \$66 million or 29% of revenue last quarter, and \$56 million or 28.2% of revenue in the year-ago fourth quarter.

The sequential increase in the margin as a percent of revenue from the third quarter and the fourth quarter was again entirely due to changes of estimates under the percentage of completion method, which had a positive margin impact of \$11.6 million in Q4 versus a negative impact of \$0.3 million in Q3. The positive change of estimates was largely due to lower project cost estimates for Chengdu I and Kunshan, which I described earlier.

Each quarter, we review in detail our project cost estimates. As a given project nears completion and delivery permits are issued, settlement conferences are held with contractors and government bodies, which serve to confirm and to clarify the net impact of the gives and takes with the suppliers and customers over a multi-year project. Chengdu and Kunshan project cost estimates were revised in light of such ongoing settlement conference.

Now let me talk about SG&A. Selling, general and administrative costs dropped slightly, dripped a little bit lower. Selling expenses dropped as usual on lower commissions on sequentially lower contract sales. So they stay proportional pretty much to contract sales. G&A spending was flat on continued higher than like consulting expenses as we examine our strategies and reporting systems. G&A should be lower next quarter on absolute terms if not on percentage terms.

Income taxes, the fourth quarter was disappointing from an income tax perspective. Our effective tax rate shut up from 40.2% in the third quarter to fully 56.2% in the fourth quarter of 2012. There were several one off issues that drove this increase.

First, tax authorities in Xuzhou notified that company's land and construction costs must be separately allocated to car parks. These costs must be excluded from the land value added tax calculations.

This results in lower cost, higher taxable profit and a higher tax price. Also, tax authorities at Kunshan similarly indicated that car park cost should be excluded from land value added tax taxable income. The impact of each of these LVAT or Land Value Added Tax issues was over \$4 million each. In both cases, we are continuing negotiations with authorities.

In addition, certain of our headquarters cost in Xinyuan, China from 2010 and 2011 were preliminarily disallowed by the Henan tax authorities alleging that these expenses should have been allocated elsewhere. The income tax expense impact was over \$6 million, again negotiations are underway, let's see where this plays out.

These unfavorable items were partially offset by recognition that deferred tax assets booked when we recorded an impairment for Suzhou International City Garden in 2008 would be fully realized. The overall project has proven to be profitable. We've lost carry forward are therefore recoverable.

Taken as a whole, these four one off issues raised our effective tax rate in the fourth quarter by 11.4%. All this being said, our effective tax rate in 2013 is expected to be in the range of 37% to 39%.



Net income in the fourth quarter totaled \$33.6 million versus \$31.9 million last quarter and guidance of just \$17 million to \$20 million. In short, we crushed the net midpoint of net income guidance by 82% despite the unfavorable tax adjustment.

So let me move on to some operational issues, first of all, new properties. The last parcel rent, we actually purchased was in the third quarter of 2012 on September 29, 2012 when we bought a project in Beijing with a GFA of 118,300 square meters for \$167 million. We made the final payment on that by the way in the fourth quarter of \$123 million.

We did not acquire any land in the fourth quarter. Although, as of this conference call, we have invested \$143 million under deposit framework agreements to assist three land bureaus in China to bring properties to auction. So we look for renewed auction activity in the second quarter this year when these agreements reach maturity.

Let me briefly comment on the status of USA project. We sold 7 parcels of a total portfolio of 12 parcels of land in the Reno, Nevada area which was acquired from a major bank in the second quarter of 2012. 2012 proceeds of \$8.3 million exceeded the \$7.4 million purchase price of the entire portfolio. As of this call, one additional parcel is in ESCO, three parcels are in negotiation and one parcel is being held for possible future development.

The Lenox property in Irvine, California consisting of 15 luxury condos has not been actively marketed yet although we do have one unit in ESCO, two additional offers. The project will likely be actively marketed in the second quarter of 2013.

Next on Williamsburg, Brooklyn, New York. Work on the Brooklyn, New York project has begun. We are currently in the design development stage with architects and marketing consultants engaged and hard at work. We are not seeking any variances on this project. We do expect to start construction in the fall of this year.

We also expect the project cost to total about \$180 million to \$200 million. We expect first deliveries and first revenue in the first half of 2015. And as announced previously, total project sales are expected to reach somewhere between and there is a wide range \$250 million to \$350 million.

Now, let me comment on our balance sheet. Our cash balance rose from \$608 million on September 30, 2012 to \$642 million as of December 31, 2012 and this despite spending over \$108 million in the fourth quarter on land and land deposits. The value of The Company's real estate property under development at the end of the fourth quarter was \$722 million compared to \$632 million at the end of the third quarter of 2012. In other words, it's up \$90 million.

In the fourth quarter, The Company made payments of \$30 million related to the Suzhou land acquisition, \$133 million on the Beijing land acquisition announced earlier and a further \$45 million on deposits under negotiated auction framework agreement. We did recover \$99 million of Beijing land deposit for the fourth quarter. So the total net spending on land acquisition activity in the fourth quarter netted \$108 million.

Total year 2012 results, just a few words, the numbers speak for themselves and they all set records at Xinyuan. Contract sales for the full year 2012 at \$836 million rose 10% over 2011. Revenue totaled \$915 million in 2012, up 33% from 2011. Net income topped to \$157 million, fully 54% above 2011.

Now I should take -- turn to the outlook. First quarter contract sales are expected to reach \$135 million. Revenue in the percentage of completion method is expected in a range between \$130 million \$140 million. And net income is expected to come in at the range of \$16 million to \$18 million. With several projects nearly sold out, The Company's sellable inventories expected to decrease until new projects are bought online, in the fall of 2013. We've mentioned this factor of course on the last two conference calls.

For the full year 2013, contract sales were expected to reach \$830 million. Revenues, that's in a range between \$750 million and \$775 million. And net income should be in the range of \$90 million to \$100 million, perhaps more. There is some uptake in these numbers we were able to acquire additional property of auction in April and commence presales before the end of the year.

So 2013 is shaping up to be a very eventful year. Let's mark to it briefly, the first quarter of 2013 will suffer from usual Chinese New Year seasonality effect, but we will also be doing with decrease in sellable inventory. After the first quarter though, our sales and revenue projections are strictly up



unto the right. The second quarter of 2013 should be well above the first quarter, simply due to the recovery from Chinese New Year seasonality. The third quarter we'll see introduction of four new projects and presales will be under way for part of the quarter.

In the fourth quarter 2013, we will see four new projects in full swing for the full quarter. Plus we have the possibility of bringing online property acquired in China early in the second quarter of this year although we did not incorporate any presales of revenue from such a possibility in our 2013 outlook.

And finally, 2014 looks to be very bland. 2013 project start-ups will continue to contribute and new land acquired this year via auctions and deposit framework, again this will provide fuel for accelerated growth in 2014. In short, stay tuned for some exciting accelerated growth beginning in the third quarter of 2013.

And finally, let me comment on shareholder value initiatives. As we reiterated several times over the last two years, our position is that a dividend once established should be maintained or expanded consistently over the long term.

We plan on maintaining an attractive dividend for the foreseeable future. We are pleased therefore to be paying tomorrow a quarterly dividend of \$0.05 per ADS, up 25% from \$0.04 per ADS last quarter. With the current \$0.05 quarterly dividend payout ratio, just 14.9% of 2013 profit guidance, and just 9% of 2012 net income.

The Company believes it will be able to maintain the \$0.05 dividend to all that the most severe up or down cycle. That being said, I should always note that each quarter's dividend approved separately by our Board of Directors.

Finally, the weighted average fully diluted ADS is outstanding fell from \$72.1 million in the third quarter to \$71.0 million in the fourth quarter. With the share price rising substantially during the quarter, The Company did not buyback any ADS' in the fourth quarter referring to follow the dividend graph.

That concludes my prepared remarks.

Operator, we are ready to take some questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). At this time, we will go to Matthew Larson with Morgan Stanley.

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### Matthew Larson - Morgan Stanley - Analyst

Good morning, gentlemen -- very good quarter. I got a question for you regarding the US property purchases, you mentioned the Reno properties are already showing quite a return, you bought it in the summer for seven and change, you've already sold a few other properties and looks like you're going to realize greater than the entire purchase price. Are those primarily marketed to Chinese or to domestic purchasers here in the US?

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### Thomas Gurnee - Xinyuan Real Estate Co., Ltd - CFO

Well, actually I should clarify what are all strategies for all three projects. Reno we bought originally intended to develop the properties, but in the end, our management excited, we bought at a very attractive price in the portfolio. Ultimately, our management decided to concentrate on the East and West Coast.



So we are actually flipping, and we announced this two quarters ago, we are actually flipping the Reno properties to other developers or individuals. So the sales so far of \$8.3 million have all been to Reno developers.

So the Reno presence for The Company is -- it will be short lived, and so we've sold seven of the 12 parcels. As I mentioned during the call, one is under additional, one is under ESCO, two we have offers on and the fifth of the unsold five is we're conservatively holding for development.

The Lenox properties, just to clarify for you since you're new to this call, the Lenox property was actually a completed condominium project with 72 units and so that also was not a development project per se, but more to set up our marketing arm in China to exercise that marketing arm.

So we are reselling finished condo -- luxury condo units in Irvine. These both contrast sharply with what's happening in Williamsburg, in Williamsburg, of course, we're developing that property and we will eventually sell 216 units and about 400,000 square feet of space in that Brooklyn property.

Does that answer your question okay?

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

It does. Thank you. I have a second question if that's okay.

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

Sure.

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

The Company's valuation has remained exceedingly low at least relative to what one would, you know, compare to other US listed companies in general, and most likely because of concern about validating financials in the US listed Chinese companies.

All these measures that you've been taking to -- at least for me have raised that veil of concern considerably, the higher payout in the dividend, your buying things in the US with funds. So clearly there must be some funds on the balance sheet.

You are buying back shares, I think I applaud all of these things and the stock has responded. But it still traded at a very low multiple and a low price, you know, frankly basically below its cash, net cash.

What do other developers -- non-US listed Chinese developers generally trade at? If you could just give me just a rough back-of-the-envelope or back-of-the-envelope valuation for firms listed over in say Hong Kong or in Shanghai?

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

Well, there is a good question. I should probably differ to my real experts around the table but they generally -- nobody follows the percentage of completion method, because they are not US listed companies. So we have that difference between us.

But they're generally trading in Hong Kong at something in the neighborhood of 8 times to 10 times earnings, six to eight. The other measure that's frequently used obviously in Asia is the discount to book value. Our book value is almost \$0.03 short of \$11 a share, and we're trading at \$4.50 let's say. So we're trading at a huge discount to book.

This is generally in the 30s up in the Hong Kong listed company areas. So we do not compare favorably in our evaluation metrics with anybody. And so we've come to this conclusion that we will just do what we can and so what you do is produce results, we pay dividends, we did share



buybacks when that was appropriate and so we're doing pretty much everything we can. We are looking at tremendous growth from the second half of 2013 onwards. That's our answer to this valuation issue.

We're pleased to be a New York Stock Exchange-listed company. The Chairman is very pleased to do so. May be oddly enough, most people hate Sarbanes-Oxley but the Chairman likes it, he likes it because of the control aspects of the projects in China. And so we're pleased to be US-listed company.

So we are not in any way considering the fashion of the value which is going private may be relisting somewhere else. We are staying the course on the New York Stock Exchange.

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

Okay, great. If I can ask one last question, and this is the third part of what for me has transformed your company's perception, was the addition of Mr. Anthony Walt into your Board.

You know, he's got quite a resume and I would assume that someone of his stature and reputation plus the fact that he is Vice Chairman of Standard Chartered that they would have thoroughly vetted your firm prior to his getting involved. It seems to me that would be a normal procedure before anybody joins your Board, is that the reasonable assumption of buying?

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

Yes, but they don't vet as carefully as you would. You being Morgan Stanley on a deal, they're not doing full due diligence, but yes they of course vetted us, and it's funny that even the comment you made which is we're showing de facto we have a real cash by making dividends and buying properties in the United States.

We have a lot of cash, and we're verifying that through surprise, our internal audit department I think is the largest in China, I'm joking there -- half joking there, but it's 11 people. They are out there are doing surprise bank account audits. So we've been doing that for about two to three quarters in response to comments like you made.

And so we're very comfortable that we have very good internal controls of our cash and that we're in very solid position. I think Tony has sensed and so did Standard Chartered.

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

Great, thank you.

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

Thank you.

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**Operator**

(Operator Instructions). And we will hear next from Pat O'Donohue with Weeden & Company.

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**Pat O'Donohue** - *Weeden & Co - Analyst*

How are you? Nice job.

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

Hi, Pat.

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**Pat O'Donohue** - *Weeden & Co - Analyst*

I was curious if you could provide a further update on the Jinan Splendid project?

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

Okay. The Jinan Splendid project is our biggest one. They had excellent sales - a major sales driver for us this last quarter and will be for the next couple of quarters.

It has some piling issues in the third quarter, which we reported on this conference call and in our -- and the percent complete lag in the third quarter, and they have since made up a lot of ground. In fact, they exceeded our expectations in progressing to the construction progress to full percent complete.

So the project is progressing very well, the ASPs are generally higher than we expected. The project is going well. Is there something specific you wanted to ask about that?

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**Pat O'Donohue** - *Weeden & Co - Analyst*

No, I was interested in the piling issues and you seem to answer that. So --

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

Yes, we certainly have that -- okay. Thank you.

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**Operator**

(Operator Instructions). We will go to Stephen Capone with EPCH at this time.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Thank you, gentlemen.

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

Hello.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

I have a question regarding -- in regard to the Chinese government trying to rein in the property growth in the main China Tier 1 and Tier 2 cities, it seems like they are trying to pull the prices back and make it more difficult for the developers. And how do you foresee that impacting your future development projects in those Tier 1 and Tier 2 cities?

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

Okay. You don't want to hear this from me, you want to hear from the Chairman. So let me have that translated to the Chairman.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd - Director - IR*

(Spoken in Mandarin)

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

Just one moment, please.

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

(Interpreted) In the year 2009 through 2011, the price for the real estate rose very fast. And we believe that's one of the reasons why the local government tightened the policy in the year 2012 and we believe that ASP growth by less than 5%. And looking forward, that means that the policy is effective and looking forward, we don't see that the policy will be more tightened than we expected.

In year 2012, we believe that most of the customers actually are first-time home buyers, and as more and more people are coming to this city, and we believe that the major growth driver for the development of the real estate industry in China.

In the past two years due to the tightening policy, we are holding kind of a conservative attitude with regard to the debt ratio of the total assets. And in the future, we are seeing that, there's no material change of the policy and the market is stabilized and we're planning to raise the debt ratio a little bit.

As Tom mentioned, this year, we are going to increase the land bank so to ensure the future development in the long term for The Company.

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

Sorry, that took a long time.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Yes, I have one more follow-up question, Tom.

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

Okay.



**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

With the upcoming ROTH conference in March --

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

Yes.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Does your company feel relatively confident that you will attract some large institutional investors to boost more confidence into The Company and the shareholders? Or do you have any tentative institutional investors that seem relatively committed?

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

That's a tough question to answer. That's a really tough one.

We stay the course. We've had -- we've met people that wouldn't meet us in the last couple of quarters, so we are seeing some of the major institutional investors at least showing interest, but we haven't seen in the tables yet.

And so we are going to the ROTH conference, we are going to give you several conferences in the spring. So let's hope we get some activity, but I can't tell you with full confidence that yes, we've got institutional investors buying big amount of shares in our company, no, I can't say that. But I will say this that they have been listening and there weren't listening for a couple of years. So they have been listening.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Okay. So you have relative confidence that you will attract some institutional investors possibly --

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

Someday -- people are starting to wake up for the fact this is a heck of a value play. We are trading at a huge discount to book, we are trading at awful PE ratios, and I think people will as we continue to report the results, as we continue to be frank and open with, we're going to file the 20-F here in a couple of weeks on time early perhaps and we hope that people getting confidence in our company in a reported results.

We do have Ernst and Young as our auditor, has been for several years. We work very well with them, we're very open with them, we stand by very strongly any statements we made in the 20-F, in the press release, whatever.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Okay. And lastly Tom, is your focus into the US and predominantly Chinese markets, I know I was reading San Francisco, New York. I don't know if you have considered Hawaii we have huge Chinese population here, there is quite a bit of investment dollars, Hawaii has a world appeal, and has this region been of any consideration for The Company?

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

Well, first of all, I'll comment that you are lucky dog, you live in Hawaii?



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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Absolutely.

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

Lucky dog. Okay, we are adjusting as we enter the market. We've been looking at this market for year and a half, two years. And we bought, we not only changed our mind about Reno, we decided it is not a strategic investment, although it's going to work out very well for us, we are glad we did it, because we learn a lot in the process.

But, yes the original concept was we would be going to East and West Coast and other areas where Chinese are instant where these projects could use a little boost of absorption from Chinese buyers.

Now, that being said, when you go like Williamsburg, where we made a big purchase. Our pro forma is not based on Chinese buyers, it's based on New York buyers, if there if there's Chinese buyers as part of the equation, it's an upside.

So we are looking at projects that makes sense, that have reasonable pay back and that might have some upside due to Chinese buyer interest.

Hawaii is on the radar screen, we looked at a couple of places in Hawaii, we've looked in Seattle, we looked in Northern California and we have been close to some deals that have failed one for environmental reasons, another for partner reasons, but we are pretty happy with the way the process is going. I think we've done a good job of being sober and on making this acquisition; we've made some very good acquisitions.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Okay.

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

Yes, Hawaii is on a radar screen, but we are not rushing into it. We are looking overtime and we will be happy to listen. Send me an email, I'd love to hear about your thoughts.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Just as a side note, I have 30 years of local experience, and I'm pretty well embedded in the Chinese community here and there is quite a bit of opportunities through our 10,000 client base within that region. So maybe I can send you an email to further take a look at sometime in the future.

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

Perfect. Perfect. tom.gurnee@xyre.com.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

How do you spell your last name, Tom?

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

G-U-R-N-E-E

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

G-U-R-double N-E at...

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

X-Y-R-E, Xinyuan Real Estate dot com.

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**Steve Capone** - *Estate Planning Consultants of Hawaii, Inc - Analyst*

Okay. Thank you, Tom.

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

Thank you.

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**Operator**

And we will hear next from (inaudible).

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**Unidentified Participant**

Yes. May I ask you, I'm from (inaudible) based actually in France. We run our private money on behalf of wealthy families in Europe. My question was following, if we look at the breakdown of your profit first half and second half of this year, obviously a split between 54 roughly in first half and 103 in second half.

Given all the good news you told us about your future project, your buying land through auction and etc and etc, would it be reasonable to save profit for looking for 2014, looking ahead a bit. Could be in let's say a rightmost of around \$100 million per semester. What's your view on these questions?

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

That's reasonable, it might be \$150 million, it might be \$200 million something of that nature. Of course we don't even know this is the business for us. We know what projects we own right now --

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**Unidentified Participant**

Yes.

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

And we have four pieces of land that we are developing in the second of this year. So we can pretty much tell with a margin of error what our revenue is going to be this year.

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**Unidentified Participant**

Yes.

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

And 2014 is depended on future land acquisitions and we're very confident that we're going to get those. But your numbers, I can't confirm that we're going to have \$200 million of profit in 2014, but I don't think that is -- I think it's you could certainly say above \$150 million.

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**Unidentified Participant**

And these auction lands, which you have put money on the table for something like \$180 million?

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

Yes.

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**Unidentified Participant**

This auction, I'm very familiar with the Chinese system, but this auction land means that you acquired land and from which date onwards could you begin presales of these future projects?

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

Okay. But let me comment on auctions. Up to now we've always bought land, I say always there is one exception, but we've bought land at arm's length auctions, where you put up a deposit, you go to an auction, you bid against other players, and you win or lose.

We have a new model at work here in the last six to nine months where we're making deposits with certain land bureaus in China.

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**Unidentified Participant**

Yes.

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

And a land bureau is a government organization that owns the land that can sell land use rights. Those land bureaus are little short of money, so we're advancing deposits against so that they can get land ready for auction.

When that land comes to auction, we get a little bit favorable treatment in a couple of ways, both, in a couple on price, a little bit on availability. So it increases our chances of winning auction at a reasonable price.

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**Unidentified Participant**

Yes, okay.

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

So there's two models of work that we have now, arm's length auction and then we have what I call negotiated auction, which is making deposits, etc, and then going to auction with favorable terms.

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**Unidentified Participant**

Okay.

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

So I guess I'm losing track here -- a little bit of your question.

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**Unidentified Participant**

Well, no, no, these are for your four auction you just, where you just put money on the table, are they what you call negotiated option system?

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

Yes, yes. And in fact, what we are buying, what we are making deposit on this for a parcel-able property that might be part of a larger parcel, and they will peel off one parcel at a time to offset to help us go to auction with

In other words, we'll have access to quite a large land bank without paying for that land bank totally upfront. We will peel off certain pieces and then go to auction on those pieces and then do it another deposit behind it with that same land here.

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**Unidentified Participant**

And this auction when do you think they could take place in term of timing.

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

The first one we're going to see is in April.

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**Unidentified Participant**

Okay.

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

It will take three months to six months from making this deposit to when a project gets to auction. So watch carefully in April.



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**Unidentified Participant**

Suppose you win an auction in April for specific piece of land, from where onwards -- from when onwards we will be able to big increase sales of a project, just have an idea the length of your --

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

That's a very good question and I have to be vague. But here is what I will say --

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**Unidentified Participant**

Roughly, roughly, just, you know --

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

Our people are optimistic that they buy that land in April, they can bring into market with some presales before 2013 is out. I do not have that in my projection.

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**Unidentified Participant**

Okay, okay.

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

And sometimes it could take longer, so it's not something you certain-up, but it's something you can try to accomplish. So I didn't get your name, but it provides -- let's look at that as being an upside to the projections that I have given.

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**Unidentified Participant**

Yes, okay. Well, thank you very much and I have to say you are doing a very good job probably in your industry.

And the last -- probably the last small question I had regarding your shareholder's base, are these two very large US funds, you know, who were shareholders a few years ago, are they still shareholders or no longer?

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

No, no, no.

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**Unidentified Participant**

Blue Ridge and Equity International or whatever.

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

Exactly. Equity International sold all their shares in 2010. They had to wrap up their fund, because it was like five years old or something. And then Blue Ridge had the same problem and they sold all their shares in 2012. So we've had the pressure of those two sales for two years and that pressure is no longer there.

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**Unidentified Participant**

Okay. That pressure is no longer there, interesting. Okay.

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

(Spoken in French).

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**Unidentified Participant**

(Spoken in French).

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

No, no. I lived in Paris, six years.

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**Unidentified Participant**

Okay, but working for an American company.

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

No, Schlumberger, Schlumberger is not American, it's French.

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**Unidentified Participant**

Repeat again the name?

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

Schlumberger.

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**Unidentified Participant**

Spell it, sorry, the line is very bad.

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

S-C-H-L-U-M-B-E-R-G-E-R, I worked there 13 years, Schlumberger.

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**Unidentified Participant**

Okay, okay, okay. I got it. Okay. Thank you for your French. Okay. (Spoken in French). I'll finish. Okay, thanks very much.

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

Thank you.

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**Operator**

And we will go next to [Frank Schuh] with [Renault Adventures].

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**Frank Schuh** - *Renault Adventures - Analyst*

Good day, gentlemen congratulations on the great quarter. My question relates to mostly the marketing strategy related in the US I was wondering as a follow-up to the question on the share price, what efforts are you taking to communicate more directly to perhaps five investors in the US and the overall marketing strategy to talk to your shareholders?

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

There's another good question. As the CFO, I've probably been a failure on this regard. I've tried very hard to stay in touch with shareholders and to go to conferences, etc. We struggle with this a little bit, particularly with the reputation amongst US listed Chinese companies on the frauds, and all that sort of thing. So it's been difficult for us. But we keep hitting that, we keep trying, and so.

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**Frank Schuh** - *Renault Adventures - Analyst*

Have you --

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

Yes.

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**Frank Schuh** - *Renault Adventures - Analyst*

Have you considered taking on US marketing agency to help boost your profile in the US?

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

Yes, we have. And I'm not going comment on it right now, because we are very happy with our IR firm, they are doing a fine job. But we realized and we've got a lot of attention from the purchase of the Williamsburg property.

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**Frank Schuh** - *Renault Adventures - Analyst*

Yes.



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

And that was our lot of our -- so we want to follow up on that and we are working with some people to try to do that, to upgrade, shall we say our PR activities. But I can't comment more beyond that, sorry.

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**Frank Schuh** - *Renault Adventures - Analyst*

Well, that sounds promising. Yes following the board, etc, the sentiment is obviously focused on the Chinese fraud cases, and one of those things that hit you personally was obviously the Longtop situation.

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

Yes.

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**Frank Schuh** - *Renault Adventures - Analyst*

Would you care to comment a bit about that how that get you off guard and how I understand the measures have been taken within Xinyuan to present those kind of issues taking place, but could you particularly comment on what happened there?

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

Well, Yes that was a fraud. The CEO was working with two internal people, we will never get the facts, it's impossible. I was Chairman of the audit committee, and we hired a law firm Jones and Day and then we hired a forensic accounting company to go in and look at Longtop and find that root cause here and find out what was going on, we couldn't get any way, couldn't even get in the front door.

The CEO who is I thought was a great guy, I was obviously wrong, he perpetrated a fraud and whereby they juice the numbers by billing customers that were his associates and doing off-balance-sheet borrowing to settle those invoices, and he kept a second set of books etc.

So the bottom line is, we don't really know how this happened, but we know that it was a fraud perpetrated by the CEO of the company who I haven't talk to since May 2011, These all happened in May 2011.

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**Frank Schuh** - *Renault Adventures - Analyst*

Yes, yes. Thank you. Sorry for bringing it back then. I guess that was my question, so I understand that there is some movement towards using the US marketing agency to boost the profile or between the lines is what I'm reading?

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

Well, we're not going to live our lives simply to make shareholders, I mean to put out PR. We are going to perform well, or focus on performing well and speaking the truth and being frank and open and honest with their shareholders. So you're not going to see a dramatic change in our style probably as long as I am here, maybe after I'm gone.

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**Frank Schuh** - *Renault Adventures - Analyst*

Okay, thank you.



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

I don't know if you've noticed, but I think the message for you, you if you read the correspondence I think the allegations of fraud, etc, have dropped dramatically well and consistently over the last year and a half.

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**Frank Schuh** - *Renault Adventures - Analyst*

Yes, indeed, and obviously PricewaterhouseCoopers, I think you are using -- has helped enroll being consistently audited. And one more question on small, have you any plans to target US residence with the US properties?

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

Oh Yes, did you say are we're going to target US residence with our US properties?

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**Frank Schuh** - *Renault Adventures - Analyst*

Yes because the marketing that I have seen so far again coming back to the marketing as far as I can tell has been focused on mostly Chinese citizens who want to have second home abroad in US?

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

How wrong you are.

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**Frank Schuh** - *Renault Adventures - Analyst*

How wrong I am, okay.

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

How wrong you are. Because really they are marketed to America. And as I said earlier, we hope to benefit from incremental revenue from Chinese and these will be attracted -- the Chinese love the property in New York and Williamsburg, and we expect a substantial Chinese volume there, but the project has not built simply for Chinese, it's built for the local market and an added benefits is the Chinese demand we hope to bring.

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**Frank Schuh** - *Renault Adventures - Analyst*

Okay. And how are you targeting these US residents?

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

Well, we are not, we haven't built the building yet, we just bought the property. So we are going to architectural design and marketing right now, marketing evaluation we won't be accurately marketing that project for another three to six months.

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**Frank Schuh** - *Renault Adventures - Analyst*

Okay. So I come back to the next call.



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

Very good. Okay.

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**Frank Schuh** - *Renault Adventures - Analyst*

Thank you.

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**Operator**

And we will hear next from Matthew Lawson with Morgan Stanley.

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**Matthew Lawson** - *Morgan Stanley - Analyst*

Hi gentlemen, just one last question. On the properties in the US that you've purchased was that -- were they done for cash, or where you able to get some financing on these properties?

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

Reno and Lennox were cash and the seller carried \$29 million of paper in Williamsburg, which we will be paying back this year.

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**Matthew Lawson** - *Morgan Stanley - Analyst*

Okay. Okay, great. Thank you.

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

Thank you.

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**Operator**

And moving on we have a question from Felix Lu a private investor.

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**Felix Lu** - *Private Investor*

Tom I got one question, I have got two questions. First in your senior notes which come in due, the 40 million senior notes would come in due in April. Are you going to pay it off?

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

Yes.



**Felix Lu** -- *Private Investor*

And there is no extension like last time on 2010?

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

Last time was not an extension it was a separate note, and expensive.

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**Felix Lu** -- *Private Investor*

Sure, okay that's good. Second question is, looks like the US homebuilder, provider like with the PE about twenty, it has been significantly higher and what you've got? Is there any plan like talk with your US homebuilder and like you are [holding now] or (inaudible) policy you have some -- (inaudible) equity investor.

So not only may be the market will view your company favorably with the higher valuation like maybe give you a PE of 10 or something like that. Have you have any thoughts in this direction to bring US homebuilder as your partner?

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

Yes, we have had thoughts, but that's about all I can say.

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**Felix Lu** -- *Private Investor*

Okay. I was thinking China is such huge market maybe some US builder like (inaudible) they may be interested to establish something in China, so if you got some -- like a US homebuilder as your equity holder, that would be a really good thing for both for US company and for you. Do you agree with that?

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

Well, I hear you, and it might be good, but only if they consider it beneficial to themselves. So I really can't comment on this that much, because we have talked to a couple of home builders in United States, but I can't tell you what we talked about.

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**Felix Lu** -- *Private Investor*

Okay, okay that's fair. I have just to congratulate you on a great quarter and into the market is starting to pay attention to what you guys are doing.

I think the future looks great. I don't see how things can stay so depressed for so long and I think you already turned the corner once, one the price breaks the five -- I think there are more institutional investments coming. So congratulations again.

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

So maybe we will hire you as our PR guy.

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**Felix Lu** -- *Private Investor*

Okay, I love to do that. I have some exchange with the management actually and I feel -- I'm very happy to communicate with the IR people.



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

Okay thank you.

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**Felix Lu** - *Private Investor*

Thank you.

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**Operator**

And we have time for one more question. We'll go to private investor Peter Chin.

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**Peter Chin** - *Private Investor*

Yes I just want to know more about share purchase I didn't see any information, a statement about like how many shares you purchased last quarter and are you going to continue to buy shares back or do you see something more?

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

Well, I did say that during this conference call, I said, that with the share price raising -- I will read it, with the share price raising substantially in the fourth quarter, The Company did not buy back any ADS's in the fourth quarter of 2012.

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**Peter Chin** - *Private Investor*

Okay, and --

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

We did not buy back any, we set kind of a floor price and it didn't get to the floor. And I'm not going to tell you what the price is, because that would give you our trading strategy, but we did not buy back any shares in the fourth quarter that management and the Board prefer the dividend route to compensate shareholders, right now.

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**Peter Chin** - *Private Investor*

Okay, okay, I think the share price is -- they are extremely low in this kind of low level you should raise your bottom floor and you know, to improve the share performance, and I think your board should consider and --

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

I understand the mathematics of that, the number of shares drops, the value per share goes up. I understand the mathematics. But you also have to understand that to get the big institutional investors into buying our shares, we have to be a certain size, and there has to be certain liquidity in the market before they will invest in the share.



**Peter Chin** - - *Private Investor*

Okay, I understand.

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

We have to balance these two factors.

**Peter Chin** - - *Private Investor*

Okay. Thank you.

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

Thanks.

**Operator**

And that concludes today's question-and-answer session. I would now like to turn the call back over to management for any closing remarks.

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

Well this is Tom again. You've heard too much from me tonight, but thank you. This is a great quarter for us, so we're very excited going forward. And thank you very much for dialing into the conference call, and your great questions. Thank you.

**Operator**

And again that does concludes the call. We would like to thank everyone for their participation today.

**Editor**

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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