FINAL TRANSCRIPT

Thomson StreetEvents℠

XIN - Q1 2009 Xinyuan Real Estate Co., Ltd. Earnings Conference Call

Event Date/Time: Jun. 04. 2009 / 8:30AM ET

CORPORATE PARTICIPANTS

Jacky Zhang
Xinyuan Real Estate Company - Director - IR

Yong Zhang
Xinyuan Real Estate Company - Chairman, CEO

Tom Gurnee
Xinyuan Real Estate Company - CFO

CONFERENCE CALL PARTICIPANTS

Kun Tao
Roth Capital Partners - Analyst

Hao Hong
Brean Murray, Carret & Co. - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the Xinyuan Real Estate Company Ltd. first quarter 2009 conference call. Today's conference is being recorded. At this time I'd like to turn the call over to Jacky Zhang, IR Director, for opening remarks and introductions. Please go ahead, sir.

Jacky Zhang - *Xinyuan Real Estate Company - Director - IR*

Yes, good morning, everyone, and welcome to Xinyuan's first quarter 2009 earnings conference. The Company's first quarter earnings results were released earlier today and are available on the Company's IR website at ir.xyre.com, as well as on newswire services. You can also download the slide presentation regarding today's earnings results from our website. So before we continue, please note that discussion today will contain forward-looking statements, made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1991.

Forward-looking statements involve inherent risks and uncertainties. As such, our results may be materially different from the results expressed today. For further information regarding this and other risks and uncertainties is included in our registration statement on 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. For today, we will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will discuss the general business climate, comment on the current operations and provide some perspectives on the Company's long-term strategy and its path in 2009.

He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will go over the Company's financial results and provide some color on our results and our 2009 outlook. . So following management's prepared remarks, we will open the call to questions. During the Q&A session, Mr. Zhang will speak in Mandarin, and I myself will translate his comments into English. Please note that unless otherwise stated, all figures mentioned during this conference call are in US dollars. Now I will turn the call over to Xinyuan's Chairman and CEO, Mr. Zhang. Please go ahead, Mr.

Yong Zhang - *Xinyuan Real Estate Company - Chairman, CEO*

Hello, everyone, and thank you for joining us today. We made significant progress during the first quarter in reducing our cost structure as the initiatives that we put in place to align our expenses with the current environment to start to had a positive impact on our financial results.

Since the end of the first quarter, we have started to experience an uptick in demand. We believe this is due to several factors. First, the overall marketplace appears to be improving as buyers take advantage of attractive pricing. Additionally, we believe that our locations, a unique characteristic of our properties and the same management upgrades we'll have maybe in the field have helped improve performance on our projects, as well.

Well, we hope that this trend will continue. We have limited visibility into the rest of the year. Consequently, we are taking the following approach to reaching our business to best position Xinyuan's near or long-term growth. We will (inaudible) improvement in demand. We are conservatively increasing the development pace on our large projects in Suzhou, [Qingjang] and Chengdu.

These projects were originally scheduled to be completed in 2013, but we are now targeting completion in 2011 to 2012 timeframe. Additionally, we are evaluating the possibility of starting development when our two -- and develop pieces of land we own later this year. The property is a former agriculture factory in Chengdu, located in the downtown of the city and we purchased at a price of RMB1,300 per GFA, a very good price.

Since we already own the land, the additional capital outlay is not a significant, which makes (inaudible) of the project objective. However, we are still taking a cautious approach with our cost structure. We will tightly manage our expenses and focus on efficiently and conservatively employing our capital.

Secondly, we will continue to focus on strengthening our management team, both as executive duties and managerial level. We are actively benchmarking ourselves against the early players in the industry and will not suggest until our performance reaches or exceeds that level. With that, let me turn the call over to Tom Gurnee, our Chief Financial Officer, to go over our financial details for the quarter and our outlook for the remainder of 2009.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Thank you, Chairman Zhang. Thank you. Yes, this is Tom Gurnee, and let me start by talking a little bit about Q1 2009. Revenue recognized under the percentage completion method, it declined 34% sequentially from last quarter, from $60.8 million to $39.9 million, at the low end of our guidance that we gave last quarter. Meanwhile, GFA sales fell from 61,200 square meters in Q4 '08 to 47,100 square meters in Q1 '09, a drop of 23% sequentially, but 24% ahead of the low-end guidance and 18% from the midpoint of guidance.

ASPs decreased just slightly at 5.4%, but 4.2% of that was mix. In the press release, for the first time we've included a table of projects with GFA sales trends and ASPs, and I'd like to comment on each project. I'll skip the Wang Jiang Garden, which is winding up. It's very small numbers. Chengdu Splendid One fell moderately from quarter to quarter on pure economic effect.

The introductory heavy discounting has been discontinued and we're now priced at market, so our current pricing is in the $4,200 to $4,300 ASP range. Henan Colorful Garden moves nicely, and without discounting between quarters. The next one, Financial Square, is winding up. Kunshan International City Garden, our largest project, we accelerated somewhat on discounting, but again, this trend has been halted this month and we're continuing on in our upward trends there.

Elegant scenery is wrapping up, so I'll skip talking about that. Shandong International City Garden was our best performer, exceeding Q4 volume, without any discounting. On the negative side, all the Suzhou projects, Colorful Garden, International City Garden and Lake Splendid, underperformed, as we suspended a significant part of our construction activity in a tough Q4 '08, Q1 '09 market.

In addition, we felt it necessary to change out the management team in Suzhou, due to some poor execution and poor contract oversight. To head off any impact to the Xinyuan image, we sent senior management from headquarters and other subsidiaries to fill the void, and we have since fully restaffed with an experienced and capable management team. The resulting loss of focus did however impact the sales effort in Q1. But as we'll talk about later, a sharp recovery in April and May, particularly for these projects, as we're confident that these problems are now behind us.

Let's turn to revenue. The relatively low $39.9 million of revenue recognized under the POC method versus $40 million plus in guidance was more a mathematical anomaly than a performance issue. The total project input costs, in other words, the spending on our development construction, was just $23 million in the quarter, less than half of what we had been forecasting. So despite higher-than-projected GFA presales, this resulted in the percentage completion revenue recognized being lower than expected.

Gross profit under the POC method reached $6.5 million. About $7.7 million was on projects -- we had some small losses on some other things -- or 16.2% of revenue in Q1, up from a very large loss of $75 million in Q4 2008, which included over $80 million of adjustments related to the impairment of Suzhou International City Garden. SG&A was the big story perhaps this quarter, as it dropped nearly 50% sequentially from Q4 to Q1, on cost-cutting measures taken in Q4 2008 and early 2009.

I joined in February. These were well underway before I joined, so I take no credit for this. Compensation costs dropped sequentially by $1 million, or 41%, in SG&A. Headcount has trended downward, from 547 at the end of the year last year to 437 at the end of March and to 403 today. That's about 30% in five months. Much of that cut was in headquarters. Advertising and promotion spending was down $1.1 million, or 76%. The Company obviously recognized the slow market. That will probably bounce back a little, but nowhere near previous levels. Travel, entertainment and communications were down $700,000, or 40%. Professional fees were down 62% and even stock compensation was down 22%.

In a side note on this stock compensation, we have decided to no longer report non-GAAP results in our press releases, since it's becoming less important and clutters the earnings announcement. For those of you who still want to calculate non-GAAP balance sheet, numbers for Q1 2008, Q4 2008 and Q1 2009 stock comp was $3.175 million, $1.036 million and $842,000, respectively.

The net result of these factors was a net income of $1.1 million, versus a Q4 2008 loss of 77.5 and an outlook guidance that we gave last quarter of $2 million to $4 million loss. The balance sheet got healthier in Q1. Even though the pure cash balance was down $12 million at quarter end, it was more than offset. We paid down debt by $25 million, as it became due here in China, and we paid down accounts payable balances by $15 million.

The gearing ratio improved a couple of points, from 47.9% to 46% and the debt-equity ratio dropped from 0.92 to 0.86. And despite a soft revenue quarter, the balance of real estate under development dropped by 14 million on very low input costs. So the trend for this quarter obviously was reducing costs, reducing spending, and it paid off.

So all in all it was an excellent quarter. GFA was up, presales were up, margins back, operating expenses were down and we're trending up sharply right now. So let me talk about Q2 guidance. Let's talk about the outlook.

Q2 GFA sales are looking sharply higher than Q1. March GFA was 50% above the January-February run rate. April was 50% above March and May was 50% above April. So the trend is strong and up and to the right. We expect at least 100% quarter-on-quarter growth in GFA sales, to 95,000 to 110,000 GFA in Q2, maybe higher.

We expect similar percentage growth in revenue to the $75 million to $85 million range, and we expect net income in the $2 million to $4 million range. SG&A is expected to rise quarter-on-quarter a little bit on higher commission payment to outsource agents and some comparison expenses will be well below 10% of revenue and continue to trend downwards as a percent of revenues. I should know why I'm saying this, that late in the first quarter the Chairman and the Company initiated a program of outsourcing the sales function and that had an impact, small impact, on Q1, but going forward should have a fairly big impact and we're having very good sales results as a result of it.

And the commission rate is 1.2%, so we might see the sales selling expenses as a percent of revenue staying low for the rest of the year. For the year, as the Chairman has said, we're cautious, because we can't yet confirm the sustainability of this market we've got, but if current conditions persist, albeit without -- GFA is expected to reach something between 350,000 to 375,000 for the year, versus 250,000 to 290,000 guided last quarter. Revenues are expected to hit $270 million to $295 million, up from the previous guidance of $225 million to $250 million. Gross profit should continue at 16% and higher.

SG&A should remain semi-variable and is trending downward as a percent of revenue, and we expect a profit of $8 million to $13 million of the year, so all in all a pretty sizable increase in the outlook, and if today's momentum continues, we may revisit that next quarter. So, to summarize, and summarize what the Chairman said earlier, we will continue to hold the lid on costs, as evidenced by the headcount numbers so far this quarter.

We will stick with and tweak the outsourced sales model. We are currently accelerating current projects, as the Chairman mentioned, and we have access to enough borrowing to do so. We are preparing -- local borrowing. We are preparing to execute on the alcohol project later in the year, and if we can confirm this -- through market strength, and we feel it can be financed via local borrowing.

We will continue to push -- the Chairman has continued to push the strength in operating efficiency. A key campaign of his, and he is determined to benchmark among the elite Mainland developers in the coming quarters. So I thank you very much for listening to all that, and we invite questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jacky Zhang - *Xinyuan Real Estate Company - Director - IR*

Excuse me, Jim. Hi, operator.

Operator

Yes, sir.

Jacky Zhang - *Xinyuan Real Estate Company - Director - IR*

It's a little weak for the voice. Would you like to say some more to speak a little bit louder?

Operator

I apologize, you said you'd like to speak a little bit longer?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

A lot louder, he said.

Operator

My apologies.

(Operator Instructions)

We will take our first question from Kun Tao from Roth Capital.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, good morning, everyone. Congratulations. The first question, you already mentioned for the gross margin, your gross margin actually improved sequentially. Can you elaborate a little bit more? Last quarter, you have -- because you adjust your revenue projections, so you've got a loss on the gross margin. But what happens in the Q2 -- Q1, sorry? And you also mentioned you expect -- I didn't hear clearly. You expect gross margin will be above 16% or 60% for the 2009?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

No, no, don't let me tell you 60% -- 16%.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, so --

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

We were 16.2% in the first quarter, and for the projects themselves we hit 18.9%. We lost a couple percent on some adjustments, not having to do the percentage completion on the landscape business, et cetera. So we expect a high tends -- now, you're asking why gross profit shifted so much. The main culprit really is Suzhou International City Garden.

When we took that impairment loss, what you do is you write down the carrying value of it and then your target cost, of course, becomes lower going forward, and so we have a 22% to 23% margin on the Suzhou International City Garden project going forward, after the writedown, and so that's a factor right there. There were no other impairments, and so you will see our gross margin fluctuate a little bit with percent completion accounting, but it should stay fairly stable, going forward.

Kun Tao - *Roth Capital Partners - Analyst*

Yes, if I remember right, you had a profit-share of above 20%, in between 20% to 25% gross margin. Is that -- would that be the case going forward, or do you think because you have some price pressure in some of your projects, so the gross margin might be in between 16% to 18% right now?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

That's a really good question. And I have to be honest. What I factored into my planning was not a lot of movement on price. Now, in early June, we've raised prices a little bit, 2.5% to 4% in most cases, but that's a recovery of some discounting we did in he first quarter. And I kept it -- we've let that inch up a little bit for our projections, but not very much, and the market may be more buoyant than I've said. But without much price movement from here, I did do my projections based on a high-teens return of gross margin.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, okay. And go to your SG&A cost. You've done -- lowered down your SG&A cost, industry and marketing expenses decreased. We think it's good. But since the market is recovering, so what's your, for instance, marketing expenses, also your promotions, other things, and headcount? Would that be increased as well with the market rebound?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Well, no, and let me explain it. Not headcount, but cost will increase because we're paying a commission o 1.2% on every $0.01 sold. And, by the way, we pay it a little different. We pay based on GFA sales, past sales, not on revenue per POC method. But, anyway, Kun Tao, so we do expect at least 1.2% of revenue as an increase going lockstep with revenue. In addition, we have the salary and staff benefits shouldn't move that much, because this is really oversight and management of the sales function, not selling itself.

On advertising and promotion, we're at a low ebb here. I imagine we're going to expand it, albeit at a lower rate, and with the agency sales model seems to be working without tremendous investment in advertising and promotion. So on the selling expense side, we expect it to stabilize between 2% and 2.5%, instead of the former 3% type model.

On the G&A side, we're down about 40% in salaries and benefits, and we're down in all categories, virtually, communication and traveling, entertainment, consulting and recruiting, audit, legal fees, and we don't see that bouncing back unless we run off and do a listing or something, Kun Tao, and we don't have anything like that planned.

I think we're comfortable with the headcount and G&A at this point, and if we do add some people, we're discussing a program with the Chairman -- the Chairman has interviewed hundreds of intern candidates, and we might bring in some interns, but those are a normal course of business, but it's not going to be a huge dollar number.

We also might bring in some senior management, but not big. So if we're talking small numbers, so we feel that we've permanently -- we feel that we could permanently keep G&A expense a lot lower than our old model.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, thanks. I think the next question actually related to what I just asked, because your guidance for 2009, your top-line increased a little bit, but your bottom line increased significantly compared to your last time, so is it because your SG&A cost lowered, your gross margin actually improved compared to last time you gave out the guidance? Is that right?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

No, Kun Tao. I look at it completely differently. When you're near zero on profit, big swings are easy with small numbers. Actually, I believe profit could even be out of that range or higher. The fact is, the revenue swings should be dropping more to the bottom line. My point being, you're right. We moved profit a lot, but not very big in absolute terms, right?

Kun Tao - *Roth Capital Partners - Analyst*

Yes.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

So it's not a straight percent. We expect -- because, like, take G&A. That fall-through rate should be good. If we hold G&A fairly steady and revenue doubles, we should see a very low -- a lower percentage as a percent of revenue and see a good fall-through to the bottom line.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, I guess my last question is related to your financing part. Can you give us -- actually, it's probably three questions, two questions, together. What's your credit line in local banks and what's your CapEx expectation and are you going to purchase land in 2009? In the second half of 2009?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Okay, here we go. The investment plan, okay, as far as CapEx I think what you mean is development dollars for putting up construction. We're accelerating it right now. In fact, we change every day, so I'd hate to give you a hard and fast number, but we are accelerating. The first quarter, we spent at a far less -- even despite the kind of low revenue, the spending on development was even lower. And so we are accelerating all projects, pretty much, and so you will see that accelerate.

Now, you asked about the investment plan. One change from the last quarter. We are pretty much sending a signal here that we're going to fire up our alcohol project in Zhengzhou. And we have already bought that free and clear. It's in inventory right now, and the financing -- we believe we can easily get financing for the development costs it'll take to finish that project.

So we believe that that the alcohol project can be financed right here. Now, as far as other projects are concerned, we'll make no secret of the fact that we're also vigilant to look at other projects, but the financing source may have to be different, because we have to buy land in that case. And so you may try one of several things. We could enter into a partnership with a financial partner. We could do -- maybe expand a floating rate note. We could do a convertible bond. We could do lots of things.

I have nothing to announce right now. That's for sure. And the next project on our horizon does not involve external financing, other than bank lending in China. So I'll keep you posted as we get closer, but we definitely feel we would need some sort of external financing to do another project on top of the alcohol project.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, so are you going to -- do you have probably detailed numbers? How much land are you going to purchase going forward for future development?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

No, I do not. Let me explain. Let me explain. I do have certain pro forma projects, but we are not looking at specific -- we haven't got identified, yet, specific targets to go push. When we do, we'll move fast, but we do not have specific targets, other than the land we already own. We own a piece of property in Chengdu, we own one in Zhengzhou. The one in Zhengzhou is a beautiful one to execute on. It's got a low land price, the land is already ours. We can finance the construction. A great way to get back in the growth curve.

We'll see if perhaps that generates enough cash to go look at another project without any more financing, but I have my doubts. But I have not, Kun Tao, got specific projects to report to you that are on our table that we have in our plan. And, in fact, my profit numbers and sales numbers I'm giving you do not even include the alcohol project, because this is a very recent development.

Kun Tao - *Roth Capital Partners - Analyst*

Okay, all right. That's all for my questions. Thank you very much.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Thank you.

Operator

(Operator Instructions)

Moving on, we'll take our next question from Hao Hong from BMC.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Thank you. I have -- I actually have a question on your gross margin. Actually, I believe that your gross margin is actually coming down in the first quarter, if I strip out your writedown in the fourth quarter and also for the entire 2008 I am seeing your gross margin is about 25%-ish, but somehow in this quarter we are below 20% and you're guiding for the full year at about 16%. So I'm just wondering, after the substantial writedown we did in fourth quarter 2008, which has provisioned for future loss, why should we expect the gross margin to come down from the 2008 level?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Well, in 2008, you had several projects at their peak, with land purchase in 2006, 2005, that had high margins. We do have a lineup of projects that were purchased, like Kunshan, Chengdu, Suzhou, that were all purchased in 2007 that don't have the margin and the land like those others did. Now, only Suzhou is impaired, but the others are lower, slightly lower, margin profiles. Now, that's improving. That is improving, but they're generally in the high teens. Suzhou after the impairment is in the 22 range to 23. Kunshan's in the 15 range. What's the other one? Chengdu is in 18, 19 range. So those newer projects do not have big historical gross profit rates of 40%.

Now, we feel that's going to be -- the alcohol project, of course, we do that, we expect much higher margins than that. And I might also point out, there are some weird effects from POC. I'm still a novice at POC, but I'll give you an example. Our project Colorful Garden in Suzhou, it has a margin of 13.3%, but in the month we reported 8.4. Why? Because of some anomalies of the way POC accounting works. But on an ongoing basis, on a grand-total basis for that project, it's 13. So there's some anomalies of the math that I'd be happy to go through with you, maybe one on one or something.

But, anyway, you're right, though. The old days of 25% on these projects that we're looking at that we purchased in 2007 only. Those are not going to get back to the 25% range. New projects will and some of the older ones will, and you've got that right.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, thank you. Also, on your cash position, I'm just curious, you mentioned that -- I noticed that your cash, excluding restricted cash, seems to be coming down. You mentioned that you paid down some payables and you have a little bit of increase in receivables. I'm just wondering, going forward, on a per-month basis, how much cash do you expect to pay on a monthly basis for construction?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

There's a good question. Somewhere in the neighborhood of $50 million -- per quarter. I'm sorry, you said for month. No, I'm sorry, more than $50 million. But in the first quarter we were slated to do about $50 million and we only spent $23 million. But I think on the restricted versus non-restricted cash, kind of an anomaly, also happened in first quarter.

We borrow when available. We borrowed some money here and yet we shut down construction activity, or slowed it down in several sites. And we built up cash that was restricted cash. It was borrowed for the purpose of a project, but wasn't spent. And so that's why you have this expansion. You'll see that drop substantially in second quarter, the restricted cash, but you won't see cash drop.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, and so just to make it clear, it's $50 million, about $50 million for construction costs per quarter, yes?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

I better confirm that. I don't have that right off the top -- yes. Yes, that's what I projected in the first quarter, and I missed. So it's 30 to 40 -- I can't quote that number off the top of my head, I'm sorry, but I'd be happy to send it to you.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, and also just now you mentioned -- it seems to me that you don't have a big land acquisition plan for the rest of 2009. If so, why do we need external financing? Because if your sales are going up, you are curbing your corporate expenses, your construction costs, you're trying to maintain it under control, and you don't have big land acquisition plans, then why should we need external financing?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Well, you've just hit the nail on the head. Not everything I'm reporting there -- you're right. If we don't do new projects, we don't need external financing, non-bank borrowing outside of China. We don't need it. And so you're right from that standpoint. So why do we discuss external borrowing? We've got -- we could borrow -- well, to accelerate a project, for example. If we decide to accelerate construction on a project, we need financing to do it. The sales rate is independent of the construction rate. But we do not foresee -- now that we're going to do the alcohol project, we could probably get financing of $200 million to do that.

In fact, we did a study the other day. We figured there's about RMB750 million in Chinese bank lending available to us if we do the alcohol project and accelerate other projects. But you're absolutely right that if we don't do another project, why in the heck would we go borrow from a bank? We won't. Does that answer your question, or did I miss it?

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Well, yes, so okay. So you don't have land acquisition plans for 2009 and probably once you build out your two parcels of land you have in your portfolio, then you may consider buying more land, is that the right way to look at it?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

No, it's sort of. You have to listen to our subtlety here. Two months ago, we reported to you that we're not thinking about anything. We were thinking about cutting costs and trying to create cash flow. Now, here we are after three months of good results, of good sales results, and we're telling you that we're going to start the alcohol project and we're looking at outside projects. The Chairman and all of us are cautious. Three months does not a major change, sea change, make. And so once we're working like heck to get the alcohol project ready to go, but if this trend flattens or isn't sustained, we're going to be careful.

We'll still go ahead and do the alcohol project, I'm sure, but do we have to be careful about buying new land to do new projects. But we intend to grow. No question about it. And we were looking for the opportunity. We think we found it. I mean, we're conserving money on the operating expense side. We've conserved money on the inventory side and we're generating some cash. We're getting through what we consider to be a cash-poor period, but that period, we've resolved that we're pleased to see the better results. So we will expand. I just can't tell you what the numbers are, and I can't tell you exactly which projects.

I can tell you this. The Chairman is very clear. There's three markets he's most interested in growing. That would be in Jinan and in Zhengzhou or in [Hufe], or the provinces of Anhui, Shandong and what's the other one? Henan. So back to -- a little bit back to our knitting there, where we're strong.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, and also another question on your outlook. I noticed that you realized your outlook in terms of RMB and dollar sales amount, but I noticed that your volume increase, your guidance, volume increase, is actually faster than the dollar sales increase. I'm just wondering, are you expecting -- are you using a lower pricing strategy to generate more sales, or is it just a conservative sort of dollar sales guidance?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

It's conservative. And I'm a little worried about percent of completion what would happen this quarter, because through a mathematical anomaly, I hit the low end of guidance, and it didn't make sense, because all of our numbers were good, or were better than I'd projected. So I have to confess to being a neophyte on percent of completion accounting in the real estate industry and I'm being a little conservative out there, yes.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Sure. Just two more questions. Sorry, it's a bit longwinded. In terms of bank financing, how much credit facility do you have in place right now with the Chinese banks?

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Okay, I'm going to have to look for somebody to give me that exact answer. Jacky, is it RMB550 million and then -- in your projection, you said that we have RMB550 million capacity to borrow now, RMB200 million with the alcohol project, RMB750 million?

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

RMB750 million, including the alcohol project.

Jacky Zhang; RMB.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

It's all RMB, yes.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, and also just one last question. I noticed that your tax rate for this quarter, it's actually rather high. Let me see, it is one of the highest in your --

---

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

I know. Very good catch, and let me tell you what happened here. Our latest projections at the time we were doing that close with Ernst & Young, et cetera, that we had lowered -- obviously, you saw what our numbers were last time. We had lowered our outlook, and in lowering the outlook, you had like at Suzhou, you had losses, tax losses, in that province that you can't offset against gains anywhere. And so we had a higher effective tax rate because of that, because this is administered by province, not by the federal way.

I believe, as we get deeper into the Suzhou and as we accelerate the closing of Colorful Garden, that we may be able to offset a substantial amount of those losses in Suzhou against taxes on Colorful Garden. So we're very hard on that tax plan. You can expect the effective tax rate to drop over time.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

Okay, thank you so much for your time.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

I can't tell you exactly the percent. I'm not an expert yet. I can't tell you exactly the percent.

Hao Hong - *Brean Murray, Carret & Co. - Analyst*

All right. Thank you so much for your time.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Sure.

Operator

And at this time it appears there are no further questions. I would like to turn the conference back over to our speakers for any additional or closing remarks.

Tom Gurnee - *Xinyuan Real Estate Company - CFO*

Closing remarks. We all wish you a great weekend and a great market today, and we hope -- we're willing to take whatever questions we might have separately when you call in, and we thank you very much for attending the call.

Operator

Thank you. That will conclude today's conference. We thank everyone for their participation.

Yong Zhang - *Xinyuan Real Estate Company - Chairman, CEO*

Okay, thanks.

(spoken in foreign language)