

# FINAL TRANSCRIPT

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**XIN - Q3 2009 Xinyuan Real Estate Co., Ltd. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Helen Zhang**

*Xinyuan Real Estate Co., Ltd. - Director of Investor Relations*

**Yong Zhang**

*Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer*

**Tom Gurnee**

*Xinyuan Real Estate Co., Ltd - CFO*

## CONFERENCE CALL PARTICIPANTS

**Kun Tao**

*Roth Capital Partners - Analyst*

**Liang Hsu**

*Brean Murray, Carret & Co. - Analyst*

**Katja Voranshuk**

*Brean Murray, Carret & Co. - Analyst*

## PRESENTATION

**Operator**

Good day everyone. Welcome to the Xinyuan Real Estate Company third quarter 2009 earnings conference call. Today's conference is being recorded.

At this time, I would like to turn the call over to Miss Helen Zhang of Integrated Corporate Relations for opening remarks and introductions. Please go ahead madam.

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**Helen Zhang** - *Xinyuan Real Estate Co., Ltd. - Director of Investor Relations*

Hello everyone and welcome to Xinyuan's third quarter 2009 earnings conference call. The Company's third quarter earnings results were released earlier today and 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 US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, our result may be materially different from the views expressed today.

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

Today, you will hear from Mr. Yong Zhang, our Chairman and Chief Executive Officer, who will comment on current operations and provide some perspectives on the market environment.

He will be followed by Mr. Tom Gurnee, our Chief Financial Officer, who will provide some additional color on our performance, review the Company's financial results and the effects of fourth quarter and full year guidance.

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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 will translate his comments into English. Please note that unless otherwise stated, all figures mentioned during the conference call are in US dollars.

I will now turn the call over to Xinyuan's Chairman and CEO, Mr. Yong Zhang. Please go ahead sir.

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**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer*

Hello everyone and thank you for joining us today. We are pleased to report another quarter of further improvement in revenues and profitability, where revenue of \$128.2 million and the POC was slightly below the low end of our guidance.

Due to less costs of selling, GFA sales were 184,500 square meters in the mid point of our schedule and a net income of \$15.4 million, achieving the high end of our \$9 million to \$12 million guidance range.

Additionally, this result marked acceleration compared to both the second quarter of 2009 and the third quarter of 2008. We [saw] growth in average selling prices and our GFA sales across all of our active projects.

We also retained tight focus on controlling our expenses. We have significantly reduced our cost structure over the past year, which allowed us to improve our profitability.

Our balance sheet also continued to strengthen during the quarter. We generated more than \$67 million of cash and reduced our debt by \$29 million.

We're also proud of our progress in acquiring four new properties over the past two months. These property purchases are located in high growth second tier cities and helped build our pipeline for growth in 2010 and beyond.

In September, we entered into agreement to acquire the remaining interest in our joint venture, Jiantou Xinyuan, which we hopeful close by the end of the year and will further add to our land bank.

The outlook for tenants is promising as the growing economics encourages urbanization [early] stage development and demands for our properties. We believe we are well positioned to benefit from this favorable macroeconomic environment as we continue to draw customers of high quality, affordable developments, the effect of growing market. We will seek to our low inventory and a high asset turnover business to accelerate revenue growth and improved profitability.

With that, let me turn the floor over to Tom Gurnee, our Chief Financial Officer to go over some of details for the quarter and our outlook for that rest of 2009; please?

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

Hi, yes this is Tom Gurnee, CFO of Xinyuan. I'm going to go through -- let's start with GFA sales.

GFA gross floor area surged from 128,000 square meters to 184,000 square meters between Q2 and Q3. That's up 44%. And the strongest sales were in the Kunshan International City Garden, Chengdu Splendid and Shandong International City Garden projects. Quite similar to Q2's trend, all three of those projects strengthened. There was a bit of a slowing in September but it was short lived, as October was our strongest GFA sales month of the year.

Our aggregate ASP increased by 10.2% from RMB5,343 per square meter to RMB5,886 per square meter. Again, we have raised all prices on all apartment categories in all projects. And we consistently are doing so, even in this quarter.

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The ASP increases have accelerated, as ASPs in the month of September were actually 18% higher than the month of June, so they're accelerating near the end of the quarter.

Contract sales represents the gross amount of contracts consummated with buyers or presales as we call them. And it essentially equals square meters sold times the price per meter. And we haven't reported this before, but it's something I continue to report on from here forward.

Contract sales in Q3 '09 totaled \$159 million or up 58% over Q2 '09, due both to GFA sales and ASP growth.

Kunshan was up -- the contract sales for Kunshan were up over 94% and Suzhou Colorful Garden up 91%, Shandong International City Garden 75%, Chengdu up 58%, all this over the second quarter. And October contract sales were actually 14% higher than our previous high water marks in July.

Revenue recognized under the POC method increased 40% over Q2 '09, which in turn had increased 130% over Q1. Under the POC method, revenue for a given project is calculated as cumulative contract sales less 5.5% business tax, times project spending to date, divided by estimated total project spending. And you subtract from that the cumulative revenue booked in prior periods. And it's a complex calculation and once again, revenue grew slower than contract sales for two primary reasons. Number one was Q3 construction spending. At \$33.2 million, it simply didn't increase from Q2. In fact, it was slightly lower than Q2.

Had spending equaled our forecast, our composite percent completion would have been 2% higher than actually recorded and revenue would have been higher -- on this simple little underpayment issue, would have been higher by \$13.2 million. Of course, this will even out over time in the future. More revenue will be recognized in the future.

Revenue growth was strongest in our less mature projects. Kunshan at 54% complete and Chengdu at 64% complete, thus revenue was booked with the lower percent complete projects.

Anyway back to sales volume, obviously there is a rising tide in our sector, due -- well, not so recently, but due to Government expansion initiatives, credit availability and buyer confidence. But one should also recognize that our three largest projects, Suzhou, Kunshan and Chengdu are still in the very early stages of the development and have a lot of growth to go.

ASP increases do not seem to have diminished demand. Price increases have continued a pace until today.

We're also seeing the effectiveness of outsourcing our sales efforts, which took effect in March of this year. We saw another effect of that factor in Chengdu. The Chengdu project had been the only project where we did not outsource the sales function. In late September we did do so and it showed positive effects in October.

Let's take a look at the rest of the P&L, gross margin was reported at 20.4% of revenue, up from 16.8% in the second quarter, primarily due to a change in estimate of one of our projects. And again this is going to be complicated because it's POC.

That project is Henan Colorful Garden based in Zhengzhou. This project is relatively mature, with nearly 90% of the total project costs incurred through Q3 and is expected to sell out in Q3 next year.

Based on sales activities in the last two quarters, it became clear that sales and thus ASPs for the Henan Colorful Garden project would exceed previous estimates, namely those made in the dark days of Q1 2009. We raised our sales estimate in Q3 by \$12 million from a total \$166 million to \$178 million without a significant ASP increase expectation from year forward. And the project is 63% sold after adjusting the sales target. It would have been 67% sold had we not changed the sales target. This drop in the percentage sold under POC method, led to a \$6.4 million lower recognition of cumulative cost of sales that would have been the case had we not changed the sales estimate.



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SG&A, SG&A expenses rose in dollar terms in the quarter by \$1.5 million from \$7.5 million to \$9 million in the third quarter, but it fell from 8.1% of revenue to 7%.

Advertising and promotion expenses rose \$0.8 million from \$1.8 million to \$2.6 million, as promotional spending and commission payments were largely purely variables during the quarter.

SG&A compensation costs edged up \$0.6 million or \$600,000 on an annual bonus accrual catch up.

Total Company headcount drifted slightly lower from 397 as of June 30 to 384 at September 30, as conversion outsourcing of the sales efforts in Chengdu had a small impact. We expect headcount to increase in future with new projects coming on line, but in a tightly controlled manner and a rate slower than the sales growth. Thus, we expect SG&A as a percent of revenue to remain stable in the short-term and decrease over the longer term.

Our 45% joint venture Zhengzhou Jiantou Xinyuan, or Xinyuan as we call it, JianXin as we call it, I'm sorry, booked profits of \$2.3 million in the quarter, pretty close to the last quarter which was \$2.5 million. Once again JianXin's sales and financial performance mirrors ours. We expect to finalize the purchase of the 55% of JianXin we do not already own by December as the Chairman mentioned. The JV currently has three active projects and one project under planning totaling 270,000 GFA between the four projects as of September 30, 2009.

The decrease in our ADS price in the third quarter to \$4.64 drove a non-cash warrant accretion credit to income of \$1.6 million with the warrant liability valuation standing at \$443,000 at September 30.

There are 5.4 million warrants outstanding at a strike price of \$5.60 per share or \$11.20 per ADS. These warrants expire in April 2010. Thus, if the ADS prices does not exceed \$11.20 between now and April, the balance of the warranty liability will find its way from the balance sheet to other income.

No unusual tax items to report, not like last quarter. Net income in the third quarter totaled \$15.4 million versus \$3.9 million in Q2. It should be noted that we do not forecast changes in the value of warrants in any guidance we might give.

On the balance sheet, it was a good month for cash flow, a good quarter. At the end of September, we held cash at \$304.5 million versus \$236.9 million in June and \$193.6 million in December 2008.

Third quarter cash flow from operations totaled \$93 million versus \$39 million in Q2 and just \$14 million in Q1.

Debt decreased from \$29 million -- decreased by \$29 million from \$361 million in Q2 to \$333 million in Q3.

Real estate property under development fell sharply from -- to \$496 million from \$584 million in Q2.

I'm going talk about the land acquisitions for a minute and please refer to the table on the earnings release.

In the 36 day period starting on September 23, we acquired four parcels of land via auction totaling 888,000 GFA. And of course, we lost several auctions during the last few months, but we have maintained discipline and are not willing to chase prices. These four parcels join the Longhai road or alcohol project in the Chengdu Splendid II parcel adjacent to current Chengdu Splendid project in our land bank.

The average target margin for the six properties in land bank is 28% with a range from 17% to 44%. This does not represent any fundamental change of philosophy about land bank. We continue to use the fast turn model and will begin development of these parcels as soon as practical.



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We expect to finance these purchases and subsequent development of those parcels with cash on hand, internally generated cash flow and existing projects, local bank construction financing and potentially trust to bridge the gap between land acquisition and the availability of local bank construction financing. For future acquisitions of land it may be necessary to access US capital markets.

Let me talk about the outlook for -- well, for the remainder of 2009. The fourth quarter of 2009 GFA sales are expected to range from 150,000 to 160,000 square meters; down slightly from third quarter due to expected seasonal softening in December. Thus far in Q4, October was strong as I mentioned earlier and the first week of November was strong.

Fourth quarter contract sales are expected to reach \$135 million to \$145 million. I am reporting and guiding with contract sales, because number one our competitors do so and number two it's not subject to POC distortions. So I will continue to keep reporting contract sales.

Fourth quarter revenue using the percentage of completion method is expected to total \$120 million to \$130 million. There are upsides to this of spending increases as expected and if contract sales rate stays prompt through November.

Net income is expected to be in the range of \$9 million to \$11 million. There are several upsides to this; potential upsides. One is contract sales if we stay strong. A second is the project spending, construction spending, if it's higher than previous quarters you will see higher percent completes and higher revenue. And potential changes in estimates if this -- if our pricing profile stays the way it is and the improved outlook for several projects are confirmed there could be changes in estimates of target sales that might have a favorable impact on our P&L.

The one downside of course is the warrant accretion if our stock goes up. So this results in full year 2009 numbers of -- with GFA sales ranging from 510,000 square meters to 520,000 square meters. 2009 contract sales are expected to total about \$430 million to \$440 million.

Revenue under the percentage of completion method will range from \$380 million to \$390 million, perhaps higher. And net income is expected to be in the range of \$29 million to \$31 million.

We will provide guidance for 2010 next quarter, but we need to do some work between now and then. And it should be -- but it should be noted that we do have land bank available now that could feasibly drive contract sales over RMB6 billion, not including the JV -- JianXin effect; the JV is consumated in December. What percent of this that we can achieve is something we will determine in the next couple of months and determine whether we want to go at that pace.

So that concludes my discussion of the results. It was a good -- very good quarter. It's looking very good for next quarter and the next year and we appreciate your tuning in.

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## QUESTIONS AND ANSWERS

### Operator

Thank you sir. Today's question and answer session will be conducted electronically. (Operator Instructions). And our first question comes from Mr. Kun Tao with Roth Capital. Please go ahead.

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

Good morning everyone, congratulations on the good quarter.

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

Thank you.

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

First question is we have seen some positive changes regarding, for instance, timing in the second home-buyer mortgage and potential mortgage discount cuts. Have you seen any of this that is affecting Xinyuan's sales and pricing? And could you provide some market update on the current transactions?

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

Let me have the Chairman address that.

**Yong Zhang** - Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer

(Interpreted). We believe that short-term there wouldn't be any material change with regards to the Government policy; for example, the policy relating to the second home buying and the mandatory policy. And even today there is some news from the industry saying that one, no material change of Government policy, especially local Government policy by the end of the year. And we believe that the current policy will be sustained by the end of next year.

At the same time with regard to the possible change of the Government policy in a normal year Q4 will be a low season, but we didn't see it and actually from our observation the sales in Q4 even go up.

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

I should add to that that our business model sort of insulates us somewhat from that effect, because over 90% of our apartments sold are to owner occupiers not investors. And so they're not second homebuyers; over 90% are first homebuyers and owner occupiers. This is the beauty of the second tier city middle income positioning (inaudible).

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

All right thanks. Second question is remember your Kunshan, Chengdu, Suzhou project will have or has some sales slowing down in 2008 and early 2009. What is the current situation on those three projects right now?

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

Okay, well Kunshan has lighted up. Kunshan is selling very well and it's -- the ASPs have increased 40% from the beginning of the year. It's by far the biggest seller of all of ours, so it's really accelerated and we continue to raise prices as we go. So Kunshan has lighted up.

So has Chengdu, Chengdu had a rough start to the year. We had to do some discounting in the first quarter and fourth quarter of last year. But this has really bounced back this year and Chengdu is pretty much our second largest project.

The only -- and the only project that's perhaps a lagger is Suzhou where it's increasing, but not nearly at the rates we're seeing in Kunshan and Chengdu. So two out of the three are doing exceptionally well and the third is healthy, but not doing exceptionally well.



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

All right thanks. And I look at your ASPs have increased, was there any help in the Q3 due to change of estimates?

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

I'm sorry could you repeat that, there was some noise when you started that question?

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

Okay, your ASP in Q3 increased compared to your previous quarters and was there any change -- help on Q3 on the results is due to change of estimate?

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

No -- well just on the Henan Colorful Garden project, as I mentioned in my remarks, so just one project had that effect. The other ones we have not -- that's the irony of POC. We have not changed our target sales until we confirm the project is more mature, till we confirm that it's a viable and a permanent change. So there is only one project, Henan Colorful Garden, where we did increase the sales estimate from \$166 million for the entire project to \$178 million. That project finishes up mid next year so we have very good visibility on it and it's already sold in the mid 60%.

Now a company like Kunshan or let's take Chengdu are still early in their sales cycles; one's 17% sold, the other 27%. So as we get -- Kun Tao to answer your questions, as those get more mature, and as we confirm that ASPs, etc. are firm then you're right, there is a potential. There is a potential, but it's not in my projection. There is a potential that you can have upsides due to revision and estimate.

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

Okay, so in Q4, your guidance is not included on any of the change of estimate revision?

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

Exactly. I chose to estimate based on exactly the targets we had at the end of Q3 that we used to produce Q3 results.

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

Okay. Okay, that's very helpful. And my last question on your new four parcel of lands, can you provide some details on when the construction starts and when the presale starts in 2010?

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

Let me let the Chairman do this one on the new parcels.





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**Yong Zhang** - Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer

(Interpreted). Kun Tao just let me add something with regard to the project that Mr. Tom Gurnee just mentioned. For Chengdu the GFA cost per square meter is [\$1,600] and for Kunshan costs GFA per square meter is RMB2,200. And both of the projects are doing very well in terms of sales volume and we think the price is competitive and even for next year and the year after. For Suzhou, the project is located in the center of the city. Costs per GFA is RMB5,000. We don't think it is high.

For the four new land parcels that we acquired in the past two months, we're actually preparing for year 2011 and most of the constructions will start after four or five months. And the total contract sales would be around RMB17.1 billion preparing for the next two couple of years.

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

All right. Can you provide a little bit of detail on the new parcel of lands on schedule of construction and presale estimate on -- yes?

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

I'm sorry, somebody just interrupted me, so I'm sorry Kun Tao, repeat that question again?

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

Yes, that was actually a previous question the same. It's can you provide some details on schedule of the new four partial lands presale and construction start?

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

Got it.

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**Yong Zhang** - Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer

(Interpreted). For all the new land parcels, construction will start after four or five months -- in about four or five months' time, which is about Q2 next year. And presales will start some time during the second half next year and most of the sales contribution will be made in 2011 and 2012.

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

Right, and I should mention, there's two projects we already own that we haven't started. That is the Longhai Road or alcohol project and the Chengdu Splendid II project.

Chengdu Splendid II is now scheduled for first presales in March. That's quite a movement ahead now. Of course, for guidance, I might equivocate on that a little bit. But on the Alcohol Project, that's scheduled for May presales activity.

So there's six projects wholly owned by Xinyuan that are in land bank; that would be alcohol project, Chengdu Splendid II and the four purchases we just made.

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

All right, thanks. That's all of my questions.

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

Thank you Kun.

**Operator**

(Operator Instructions). And our next question comes from Miss Liang Hsu with Brean Murray. Please go ahead.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Hi, congratulations on a great quarter.

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

Okay, thank you Liang.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Hi. I think Kun Tao I just ask all the questions that anyone can ever think of, but I'm glad that I can still find a couple. The first one is that when you were bidding for the lands, do you have a target return on your mind when you do that? And what would be the reasonable gross margin assumption, especially related to your recently acquired land parcels in Zhengzhou, Xuzhou and Jinan?

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

Okay, you'll probably get two answers; one from me and one from the Chairman.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay.

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

So I'll start. The targets going in -- by the way, I was very impressed with Xinyuan's pre-auction preparations, very, very impressive; lots of detail, lots of studies, lots of demographics, everything and so we usually get it right on pretty much the estimates of cost and sales. Anyway, the minimum gross margin that we stipulate when we want to walk -- the straight price at which we'll walk out of an action is anything substantially less than 20% on as far as a gross margin basis. And of course, that's with conservative ASPs with upsides.

So of the four projects, they range from about 20% up to 27% as our first pass look at it. I will be producing -- of course, we'll refine those and we will set firm targets just when we're doing presales, so that's I'm equivocating a little bit on 2010 guidance.



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**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay, is the -- and the Chairman's going to talk about something?

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer*

Yes.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer*

(Interpreted). From the second half of this year we are preparing to acquire new land; we're selective with regard to cities and the scale of the project. We try to make the gross margin and revenue scale which will fit our business model. And we believe that in the coming quarters if there's no significant change of the market environment, all the new projects will deliver good performance.

In Q2 and Q3 a lot of State-owned real estate enterprises are rushing for land acquisition, which is the hot [season] for us, so while we try to avoid that season and we believe that the land that was acquired are at a competitive price.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay great. So you're talking about these four projects going to be above 20% gross margin?

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

Yes.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay.

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

On average, yes.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay, excellent. And so, in fact, Q3 is a seasonally strong quarter for you, right?

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

Yes.



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**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay, so you're saying that this such great quarter you think it's majority due to the seasonality, or you do see the strong recovery for the real estate market or you think it's benefit from the Government's favorable policy?

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

Let me have the Chairman who's 20 times more experienced than I am answer that one and then I'll add a little at the end.

**Yong Zhang** - *Xinyuan Real Estate Co., Ltd. - Chairman & Chief Executive Officer*

(Interpreted). We believe the real estate market this year is really good and in term of the volume -- the sales volume and the ASP it's already resumed to the year 2007 level and will even outperform the year 2000.

And projects like Kunshan, Chengdu and Suzhou are of large scale with revenue contribution of more than 15% and we believe the selling price is competitive. The three projects we just talk about and also the Longhai project we believe for next year would be a -- will be making larger revenue contribution.

And besides those four projects we mentioned and our existing project, most of our existing projects actually are nearly completed and we believe the sales performance will be good. And after the financial crisis last year we believe the management team of Xinyuan is growing with regard to their acquisition ability.

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

Now to address your specific calendar problem or question sorry, let me just put it this way. Generally, the Chairman told me I remember this very carefully once, said that the first quarter is usually the weakest so we had to have a ratio that goes something like 60, 70, 90, 80 or 60, 70, 90, 70 is the ratio -- the normal calendarization that I was told here once.

But of course, nothing is normal. Q1 was abnormal and we did much worse than that. And Q3 may have been normal, but maybe Q4 is stacking up to be a little abnormal, because I think we might -- it's possible we're going to beat Q3 in Q4. So your -- seasonality, you're right. Q3 is the highest, that's the general wisdom, Q2 and Q4 similar, Q1 low.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay, so -- hello.

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

Yes, please.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

So you're saying Q1 is the weakest and Q4 is also weaker, but it's kind of the wild card right now, you might [see this]?

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

People tell me, this is my first winter in China in the real estate business and people tell me that December it slows down a lot. October was good. November so far is good. We haven't got to December yet, so I haven't experienced it yet but we have in our projections a soft December.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay, so October generally is good. And is that also reflected in your ASP and GFA sold for your three key projects right now?

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

Yes the -- I'm comparing to July. July was our peak so far this year. GFA was a few percent higher. It was higher, but just by a little, by about 3% or 4% -- about 2% or 3%. But then the contract sales were up 14%, 15% over July. So, it's a combination of GFA and pricing that's driving the higher contract sales.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay. And then this is like the average for three projects?

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

Well, it's the average of all the projects. It's of all the projects; there's like 10. Some are almost virtually complete, but yes.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay, got it, thanks. I think that my last question is actually for Tom. I see that in your F3 disclosure you have one item called total development cost and that one I assume it's the all in cost including the land cost as well right?

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

What's the term, total what cost?

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Total development cost.

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

Okay.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

When you disclose the project labeled data and one's labeled the total development cost, is that including --

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

Liang, I'm going to have to reply to you offline, I haven't got my F3 memorized. I call it our total target project cost, maybe we used a different term in the F3. I think total development cost would equal the land and the construction cost.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay, all right. So you based on that to calculate a percentage of completion right. And then you use that to multiply, if you multiply that percentage completion by the contract sales, but somehow the recognized revenue is consistently lower than that?

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

Exactly, exactly. Exactly, this is the frustration of POC. and let me explain, so the big sales in Chengdu and Kunshan that are lower percent completes, if you -- a dollar of sales in Kunshan nets you about, let's say, \$0.55 in revenue whereas the dollar sales in Financial Square, Anhui Wang Jiang Garden, it's almost complete, nets you \$0.99.

So the mix in the last two quarters has tended towards the newer projects, Kunshan and Chengdu that then get a lower recognition of revenue, because they're less percentage complete.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

No -- yes, I understand that Tom. But I'm saying that if you just take the percentage of completion times the contract sales intuitively it's supposed to equal to the cumulated recognized revenue?

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

I got it.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Right, but somehow it's always like several percents lower?

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

I got your answer. I got your answer. It's business tax. So what we do is we take revenue -- we gross revenue with -- contract sales is really gross and when we book revenue we take contract sales times 94.5%, because business tax is 5.5%. So we take revenue -- we take contract sales times 94.5% and that's your basis for margin calculation.

**Liang Hsu** - Brean Murray, Carret & Co. - Analyst

Okay, but it's not like consistently 5.5% lower, sometimes it's like 10% lower. That number is supposed to be a fixed ratio right?

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

Unless there's a change in the quarter of its estimate. If there's a change in estimate not only you have accumulative pick up for every previous penny of revenue you've had in the past.



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**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

I see, okay. So that 5.5% assume everything stays the same that 5.5% it's not going to get reversed anywhere. It just means that your recognized revenue will always be lower?

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

Correct.

**Liang Hsu** - *Brean Murray, Carret & Co. - Analyst*

Okay thanks. Okay that's all my questions, thank you.

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

Okay.

**Operator**

(Operator Instructions). And our next question comes from [Katja Voranshuk] with Brean Murray, Carret & Co. Please go ahead.

**Katja Voranshuk** - *Brean Murray, Carret & Co. - Analyst*

Good morning, congratulations on your results. I have a couple of questions. The first point is on your effective tax rate. I see the numbers 27.5%, which is -- which compares with about 45% for the second quarter of '09. Is this the tax rate that we should anticipate going forward? And why is the tax rate lower in this quarter than in the previous quarter?

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

Okay, last quarter we had an unusual item. I don't know if you've seen our press release from the last quarter. But the last quarter there was an unusual item, a cumulative pick up of tax on -- withholding tax issue on the transition between 2007 and 2008 tax rates. The tax rate went down to [25%]. And because of that we started booking tax at that rate for the entire project.

But what the Government determined is that the withholding they did before the end of 2007 was taxable at the higher rate, and everything after that is taxable at the lower rate.

So you'll find it in our second quarter press release, and it had an impact of -- I'm trying to -- I don't have it memorized, but I think the impact was \$1.3 million, maybe \$1.5 million, just a moment please. One moment please.

**Katja Voranshuk** - *Brean Murray, Carret & Co. - Analyst*

Okay.

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

\$2.1 million. So we had a \$2.1 million one-time shock in Q2 of a tax charge for previous year taxes on a difference of interpretation made by the tax authorities. That will not recur.

**Katja Voranshuk** - Brean Murray, Carret & Co. - Analyst

I see, okay great, thank you. My second question is on the gross margins for two projects, Henan Colorful Garden and also alcohol project. I believe in the amended F3, you actually disclosed that the anticipated project for Henan Colorful Garden will be 4.2%, but because of your today's press release I believe that this number is going to change going forward. Do you know what is the current gross margin that you will be booking for Henan Colorful Garden?

And also for the alcohol project, do you already have an expected gross margin for that project as well?

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

Yes and yes. 10.5% up from 4% and 40% plus for alcohol or Longhai Road Project.

**Katja Voranshuk** - Brean Murray, Carret & Co. - Analyst

I see, okay.

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

That wouldn't be -- that's kind of a target there, and I wouldn't swear to it until we actually get to the pre-sales date and I assess the current market environment and then perhaps we set the targets. But it's much higher margins, because we bought it a long time ago. We had it because of title difficulties etc., but we've got it now and it's a much lower planned cost.

**Katja Voranshuk** - Brean Murray, Carret & Co. - Analyst

I see, great. And my last project is on the JianXin, Jiantou Xinyuan, current projects. First of all what is the percentage of completion for those projects? And also if you have this number available, the gross margin for those projects?

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

Okay, well there's one project that hasn't started. That's -- it's called the [EP] JianXin -- I can't pronounce number II. And that's at 198,400 square meters.

The others are from 85% to 100% complete -- well 85%, 95%, 96% complete for the three other active projects.

Their margins on those active projects, there's EP JianXin I has the lowest margin, it's single digit. The others are 22% to 45%. And on the new EP JianXin project it's in the high 30-s%, low 40-s%.

**Katja Voranshuk** - Brean Murray, Carret & Co. - Analyst

Okay great. Thank you. That's all the questions that I had.



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

So that leaves me, and perhaps I should have pointed out on this call, what's the expected margins for Q4? Without adjustments for change, it's probably around 18%, 19%.

**Operator**

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

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

This is Tom, I'll sign off. I thank you very much for signing in. I should note that Helen Zhang, who is our IR manager, she doesn't work for ICR as said at the beginning of the call, she actually works for Xinyuan. Anyway Helen is going to be at the Brean Murray conference, on November 19, Helen? November 19, so if anybody wants to contact Xinyuan, Helen will be at that conference on November 19.

So thank you very much for calling in.

**Operator**

This concludes today's conference. Thank you for your participation.

**Editor**

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